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Message from the Director-General

The year 1998 represents my first year as Director-General of UNIDO. I recall when I was first approached about presenting my candidacy for the post of Director-General. I saw it then, as I see it now, as an honour and a challenge.

An honour, first, because as the Secretary-General often says: “... there is no alternative to the United Nations ...”. It is still the best hope for humanity. To have the opportunity to work for development in a United Nations agency, remains to this day a real privilege. I sincerely believe this.

A challenge, because a chance to transform UNIDO was also a chance to participate in the transformation of the whole multilateral system. This is a vitally important mission for all of us. I consider the multilateral development system more necessary today than ever; but not just any multilateral system. Developing countries need a completely new multilateral system, with more integration among its agencies, and stronger links with the private sector and civil society.

I remember five years ago, when I took part in the fifth General Conference in Yaoundé, Cameroon. Member States were already talking about the need for UNIDO’s reform. By the time I presented my candidacy for the position of Director-General, this had grown into a clear demand for change. UNIDO was by then passing through a critical period. Some Member States—among them prominent donors—were leaving, or considering leaving, the Organization. This was despite the fact that previous years had seen a raft of prior “reforms”, substantive cuts in the budget, and draconian staff cuts.

What really encouraged me to take the challenge was the approval by the policy-making organs of the Business Plan on the Future Role and Functions of UNIDO. This, I felt, was an expression of the genuine political will of Member States to “transform” (in contrast to “reform”) the Organization into a very different one. They envisaged a UNIDO that was more focused, leaner, more flexible and much more responsive to changing global needs and the requirements of our clients. It was, in short, a possibility to “transform” a crisis into an opportunity.

You may recall from the outset that I refused to call for a new reform. For me, reform means something to introduce measures to increase productivity where this is in the same line of business. I preferred to talk about transformation, which means much more than this. It means a systemic change. A change that requires a rethinking of the business you are in, a new way of doing business, a new way of working with others — in short, a new working culture, and probably some new investments.

A multilateral organization like UNIDO has to consider a similar strategy. Of course you cannot strictly compare a multilateral organization such as UNIDO with a commercial company. UNIDO is more like a multicultural country, where the concept of productivity has to include some political dimensions. But the analogy is not too strained. The problems and constraints are much more complex. Nonetheless, whatever the strategy it adopts, it has to effect a cultural change throughout its management and staff.

What I learned previously as a government minister in the service of my country has proved useful to what I have tried to do in UNIDO. I learned that you *can* reform the financial system of an organization. I learned you *can* revamp the administrative procedures. I learned you can even try for a better definition of the business you are in. But unless you do all this together, not only in an integrated manner, but in a truly

systemic way, you will not be able to change the *culture* of an organization. And, certainly not an organization as complex as UNIDO. The culture in question is neither the things you are doing, nor the business you are in. It is the way you are doing things and the results you expect.

That is why, this year, we invested all the time needed to prepare the new *service modules* and to do it in a fully participatory manner. A non-participatory, top-down approach, for example, would have been much quicker. But it would not have worked. That is why we introduced a new organizational structure and a completely new set of financial and administrative regulations. And, that is why we came up with a new staff development career system. We did all this to forge a new organizational culture, a new working culture, and a new way of doing business.

What we then had to do was show that the new culture worked, where it really counts, in the field. As detailed in this document, the administrative reforms that we have undertaken have already significantly decentralized our operations and delegated authority. This has benefited our field operations, in particular. I am fully aware that we have to do more in this area, but this should not detract from the achievements we have made. Let me assure you that decentralization remains a number one priority for us. At the same time, as you can understand, it is a difficult process where more than a little sensitivity and care is required. Speed may therefore sometimes have to be sacrificed for proper preparation.

We selected a small number of countries to test the new working methods, the scope of the new integrated approach, and the new service modules. Sixteen case studies are being prepared in five different developing regions—the maximum we could consider given the project workload and the available resources.

How do we know that our transformation works? The answer should be found by analyzing the operational side of the Organization.

Technical cooperation delivery in 1998 was \$81 million, as compared to a 1997 delivery level of \$97 million. This represents a drop of 16.5 per cent. Operational budget income shows a corresponding decline from \$13.3 million in 1997 to \$11.4 million in 1998, or a drop of 14.3 per cent.

The administrative and financial Controller has made an analysis to identify the major causes for the decline in technical cooperation delivery and operational budget income in 1998. The implementation of technical cooperation projects is lower than forecast. I think that it is important to add perspective to know that, since 1992, implementation levels have always been overestimated.

Aside from this overestimation, the Controller's analysis has concluded that roughly 60 per cent of the decline could be explained by the one-time effect of the transformation exercise: such as structural re-organization and staff re-assignment, the additional work to define the new service modules, the new service delivery system, as well as the discontinuation of some services that are not in line with the Business Plan. The remaining 40 per cent of the decline is probably due to external factors beyond UNIDO's control and also the cyclical fluctuations experienced within each biennium, whereby the first year of the biennium shows low delivery and the second year shows a relatively higher one.

As the one-time effect of transformation is worked out, it is expected that delivery will go up in coming months. I have also taken several concrete measures to accelerate delivery.

Approvals of new projects, if we exclude the integrated programmes, were also lower than usual. This indicates, certainly, that the transformation process is changing the real life of the Organization. On the other hand, it will also reduce our revenues from technical cooperation activities—with consequent pressure to reduce costs in order to keep the operational budget in balance.

This is a price we may have to pay. But we should consider it as *our* investment in our transformation process. Our investment in our future. It is an investment, above all things, in achieving the mandate of the Business Plan that Member States approved. And it is an investment in providing conditions that will better serve the interests and needs of our constituency, both donor and recipient countries alike.

But we shall also need further investment from our Member States. Not, it must be quickly added, investment to finance administration, bureaucrats or experts. I shall *not* ask for a bigger regular budget. As you well know, the regular budget and number of staff members of UNIDO have been cut by 50 per cent in the past five years.

The investment we are seeking at this time is to support new technical cooperation activities. Now is the time to work together to transform something else that is crucial—the nature, structure and size of the voluntary contributions UNIDO receives to finance technical cooperation. If this is not done, we shall not be able to provide the integrated packages of services to developing countries and economies in transition—called for in the Business Plan. We will not be able to operationalize the new focus and relevance that we have worked so hard to develop in these last few months.

Last year, 40 per cent of the voluntary contributions approved by government donors for UNIDO went to support Investment Promotion Services, research centres and other institutions in the donor countries themselves. In 1996 the amount was 47 per cent. While we have to recognize the important role of these institutions, we also have to admit that these funds are not likely to be used directly for technical cooperation in least developed countries. Over the past four years, of \$116.5 million in voluntary Government contributions to the Industrial Development Fund and special trust funds, only \$73.5 million, or 63 per cent, supported technical cooperation projects in developing countries and economies in transition. At the same time, 37 per cent of voluntary contributions supported institutions in donor countries.

A comparison with the figures for 1990-1993 shows that the trend is to the disadvantage of the developing countries. In the first four years of the nineties, total new approvals by donor Governments amounted to \$118.5 million, of which only \$25 million, or 21 per cent, went to support donor country institutions. \$93.5 million, or 79 per cent, supported the UNIDO technical cooperation programme in recipient countries.

If UNIDO's integrated programmes for low income countries in Africa and other parts of the developing world are to have a significant impact, more resources will be needed to finance these programmes. I, therefore, call upon donor countries to increase the amount of their voluntary contributions directed towards technical cooperation, particularly in Africa and least developed countries.

I am fully aware that to operationalize our new focus we need to give our clients—recipients and donor countries alike—a sense of ownership. And, that is why I am very pleased to highlight in this report the first seven integrated packages of services that UNIDO initiated in 1998. These first seven integrated packages of services amount to almost \$30 million, or almost half of the total technical cooperation of UNIDO in 1997 or 1998. These packages of services obviously needed to be refined and broadened in coverage, particularly to other developing regions. But they are a significant step in ensuring that UNIDO services are demand-driven, have a sustainable impact and are

fully coordinated with the efforts of the United Nations system as a whole and other important programmatic initiatives.

Transformation of UNIDO has never been the end goal in itself. That is why we have carried out the transformation process as quickly as possible. As a result, the operational mandate given to us in the Business Plan is almost fully implemented, even though we still have some things to do. The definitive test, let me underline, is whether, as a result of our transformation, we are able to effectively link the interests of developed and developing countries. Whether we can use sustainable industrial development to fight poverty and unemployment, while, of course, taking care of the environment. This is a test, not only of the effectiveness of our transformation, but also of the will and seriousness of the international community to use its outcome to the benefit, especially of Africa and the least developed countries.

A transformed UNIDO is a UNIDO that has a clear idea of its core competencies; an organization that has a clear idea of what it can do best or its comparative advantages. And what it cannot do; what it cannot do alone and must do with others, if it is to tackle the multi-faceted problems of development and make a sustainable impact. With the service modules, we have defined our core competencies. We have therefore the basis now to establish a clear identity in the multilateral system—particularly the United Nations system—as well. To further this process, in support of the Secretary-General's reform proposals to achieve greater coherence and effectiveness in the United Nations system, we have initiated concrete collaboration with a number of agencies. These include, in particular: the United Nations Conference on Trade and Development (UNCTAD); the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP), with whom we have signed memoranda of understanding. We have also initiated important new cooperation with the World Trade Organization (WTO), the International Trade Centre (ITC), UNCTAD, UNDP, the World Bank and the IMF in the implementation of WTO's "Integrated Framework of Assistance to LDCs" aimed at improving their trade sectors and trade-related activities.

We see these collaborative arrangements as vital, not only to achieve system-wide coherence, but more importantly, sustainable development. In this context, we shall actively support integrated approaches at the field level. Here, I am referring in particular to the United Nations Development Assistance Framework (UNDAF), the United Nations Development Group Office, common premises such as United Nations houses and the coordinating role of the new United Nations Resident Coordinator system.

In terms of our cooperation with the private sector, an interesting development in terms of our new agreement with Fiat should be mentioned.

I would like to take this opportunity to express my sincere gratitude to the staff of this Organization and Member States who worked so hard to ensure our success throughout the year.

At the last meeting of the Administrative Committee on Coordination in New York, and in other important meetings, UNIDO has been given recognition for its achievements. We should all be pleased with what we have achieved. This report should give you a good idea of what "transformation" means in a practical sense. I do not pretend that we have not made mistakes. But on balance, we can conclude we are firmly on the right track. We all have to feel proud for the cooperative atmosphere in which we have been working during UNIDO's transformation, and the encouraging results we have achieved.

In the following pages, you will find a summary description of the vision behind what we have tried to achieve in UNIDO, as well as the measures we have taken to ensure a "real transformation" in my first year in office. The range and speed of the changes

you see there are not due to me. They are especially the result of the combined efforts and commitment of a growing community of people—inside and outside the Organization—that wanted, needed and deserved something different from us. It is through these innovations that a new organizational culture is being built up.

In this year's report as a significant departure from past practice, I have chosen to highlight a sample of the many projects undertaken by UNIDO in recent years that have had a definitive impact on the lives of people in terms of their economic, social and environmental well-being.

Finally, let me reiterate my basic message to you. UNIDO has been given a mandate. A demanding mandate, I may add. We have almost fulfilled this. It is now time to go back to the real and substantive discussion, that is, how can we significantly enhance sustainable industrial development—our three Es—in our client countries. The transformation process is only a means to this end. We have done all we can in this regard. I feel sure that Member States will support our efforts and that the commensurate level of investments for our new integrated services will follow.

Because, I am sure we all share the ideal that the test of our progress as human society is not whether we add more to the abundance of those who have much; rather, it is whether we provide or help to provide enough for those who have too little.

Carlos Magariños
Director-General

Part one

UNIDO transformation

The vision behind the “transformation”

The cornerstone and guiding light for the transformation of UNIDO has been the Business Plan for the Future Role and Functions of UNIDO approved after intense consultation and debate by Member States at the Industrial Development Board in June 1997 and endorsed by the General Conference in December 1997.

The Business Plan represented the sustained efforts of Member States of UNIDO—donors and recipients alike—to find the correct direction for the Organization to take.

As well as providing guidance on the most important activities to be carried out by UNIDO in the future and the framework for a new organizational structure for the Organization, it had to send a clear message to the Governments of Member States that the future UNIDO would be a revitalized organization worthy of their support. And it would reflect the political and economic realities that had fundamentally changed the nature and scope of development cooperation.

The Business Plan adopted a “dual-track approach” to define UNIDO’s future activities, identifying activities the Organization should be engaged in and activities that should be discontinued.

The Business Plan clustered the Organization’s activities into two main areas—“strengthening of industrial capacities” and “cleaner and sustainable industrial development”. It further proposed a concentration on least developed countries (LDCs), especially in Africa, agro-based industries; and cooperation with the private sector, particularly small- and medium-scale enterprises. In doing so, it emphasized that UNIDO should provide integrated packages of services and support to the integration of women in industrial development. It also suggested a new streamlined organizational structure reflecting the new areas of concentration.

Teamwork was emphasized to enhance cooperation with other agencies, particularly United Nations agencies in the field, as well as to encourage a unified United Nations field presence and integrated activities. Decentralization to the field was necessary to make the Organization more demand-oriented, bring its services closer to its clients, ensure effective programming of technical cooperation at the country level and deliver technical cooperation services in a timely fashion with greater impact. Effective strengthening of UNIDO’s field presence would imply substantive redeployment of qualified staff from Headquarters in Vienna. It would also imply greater administrative and financial autonomy and empowerment to the field, while leaving a critical number of staff at Headquarters and a new extensive interaction between Headquarters and the field.

As Member States recognized when the Business Plan was adopted, it provided general guidance. Further refinement as well as clearer prioritization with supporting organizational and programmatic focus were required. To put the Business Plan into action was the first and most important task for the new Director-General when he took office on 8 December 1997.

Building on the Business Plan and the guidance given in the Secretary-General's reform proposals for enhancing system-wide coherence and effectiveness¹, the Director-General has set out the vision for UNIDO's transformation in four guiding principles as follows:

A clear sense of where industrial development needs to go in the early twenty-first century and UNIDO's dynamic role in that development

This would be evident in a more precise definition of UNIDO's services and products. Their delivery would be integrated in a systemic approach through programme and Branch interaction. Their focus would be constantly transformed through continuous review, improvement and innovation.

A structure, procedures and culture featuring consultation, transparency and dialogue between an empowered responsible staff and Member States

Multidisciplinary and multinational working groups would combine with cross-organizational cooperation to drive the transformation, refine the focus and maximize impact. A new structure, simplified procedures and more efficient and effective working methods would encourage staff responsibility and innovation. Decentralization and delegation of authority to UNIDO's field offices would be a priority.

Elimination of internal and external overlaps, and duplication of activities

UNIDO would particularly strive to integrate with other United Nations agencies and other multilateral, international and bilateral agencies as well as to strengthen significantly its cooperation with the private sector and civil society.

The Business Plan as a guideline and point of reference for all actions

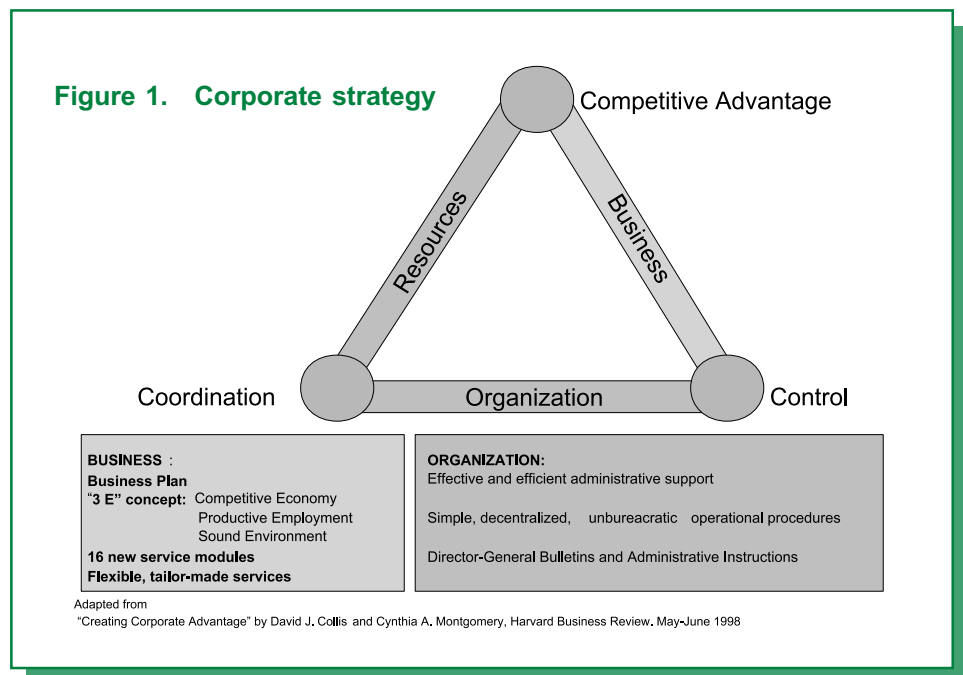
This would mean particular attention to the industrialization challenges facing Africa and the LDCs—but without prejudice to UNIDO's universalist mandate.

Underlying the transformation process, there has been a corporate strategy. This has been the foundation for the long-term vision of the Organization based on a carefully constructed system of mutually supportive parts (figure 1 — Corporate strategy). One part offered clarity on the business UNIDO is in. Another addressed the organizational structure and procedures that bring the organization to life. And a final part focused on the resources—human and financial—that UNIDO has at its disposal. For UNIDO's strategy to be successful, it had to have strengths in all three areas: the business it is

¹Secretary-General, "Renewing the United Nations", A/51/950, 1997.

in, its resources and the organization that links and supports its business and resources. The first three months of the transformation process were devoted to working on administrative procedures and the organizational structure of UNIDO². The aim was to develop efficient and effective administration of the Organization with simple, decentralized and unbureaucratic operational procedures. Next, concentration was on clarifying the business UNIDO is in, with the guidance of the Business Plan given by Member States and by streamlining and refocusing UNIDO's services. At the same time, special attention was given to UNIDO's resources—broadly consisting of its staff and assessed and voluntary contributions from Member States as well as earnings from its operational budget.

All three components were aligned in terms of a strategic triangle:



At the corners of the triangle were UNIDO's coordination and control mechanisms. The mechanisms are required to deploy UNIDO's resources effectively to achieve its strategic goals. The newly constituted Board of Directors and the Executive Board are key instruments for effective coordination and control. In this context, clear terms of reference for each Division and Branch, job descriptions for all staff, the new management framework, service management cycle and performance appraisal systems, detailed later in this report, are also very important instruments.

The triangle links the three elements—business, organization and resources—through an appropriate set of coordination and control mechanisms. These have led to UNIDO's achievements in terms of operational, administrative, organizational, staff and programmatic changes. They have also been directed towards the apex of the Organization's corporate strategy, namely to achieve its competitive advantage and thereby put UNIDO on a firm footing for the next century.

²At the same time, preparatory measures were taken to effect the programmatic changes that would require a longer time frame. These measures are addressed in phase II: programmatic changes.

The following pages chart the progress that has been achieved so far in the transformation of UNIDO. The transformation has been in three phases:

- Phase I. Financial, personnel, administrative and structural changes
- Phase II. Programmatic changes
- Phase III. Implementation

Phase I. Financial, personnel, administrative and structural changes

Finance and personnel

Upon taking office, the Director-General was faced with a very challenging situation characterized by a combination of:

- ❑ New demands and priorities for UNIDO's future work as given in the Business Plan and programme and budgets, 1998-1999
- ❑ Financial constraints resulting from the approved programme and budgets, 1998-1999 and a precarious cash flow projection for 1998
- ❑ Major over-incumbency of posts necessitating the immediate launching of a staff reduction programme
- ❑ An organizational structure that did not correspond to the Business Plan and therefore needed major adjustments
- ❑ Fragmentation of UNIDO's activities into a large number of small-scale projects without sufficient integration or focus
- ❑ Considerable uncertainty on the part of staff resulting in low morale
- ❑ Significant arrears and late payments of assessed contributions by Member States

This difficult situation required that clear priorities be set immediately to address a number of interrelated problems. It was decided to concentrate first on solving UNIDO's pressing financial and personnel issues.

A ban was introduced on all new purchases, procurement and consultancy contracts, except those related to the technical cooperation component of the budget. The Director-General assumed responsibility—through the Executive Office—for authorizing all official travel and for overseeing all emergency measures for a 60-day period. In particular, during this period, the Executive Office authorized all expenditures under the regular and operational budgets as well as under technical cooperation programmes. Through these temporary measures—which were clearly not sustainable in the long run—the Organization made savings of some half million US dollars.

Next, a staff separation programme was launched and swiftly implemented, with the result that:

- ❑ 143.5 posts were abolished as required by the programme and budgets, 1998-1999
- ❑ 92 voluntary staff separations were approved
- ❑ Staff on abolished posts were placed against existing vacancies

This approach meant that UNIDO did not need to undertake an involuntary staff separation programme with its attendant high financial costs and significantly adverse effects on staff morale. The programme therefore greatly contributed to alleviating staff

concerns and improving staff-management relations. Compared to an initial cost estimate of \$15.9 million, the staff reduction programme actually cost less than \$10 million, or a saving to the Organization of approximately \$6 million.

As no specific provision had been made by Member States in the programme and budgets, 1998-1999, for staff separations, this programme had to be carried out within prevailing financial constraints. The separation programme was therefore budget-driven and has resulted in keeping on board a number of staff with skills not fully in line with UNIDO's new programmatic focus. This will require their re-training or their separation from the Organization. Given the uncertainties facing the Organization, along with the staff separation programme as a special temporary measure, existing staff contracts were extended generally until the end of 1998.

The expectation was that, when UNIDO's financial situation became clearer, staff contracts could be considered for longer extensions in the context of a new staff career development system to be introduced in Phase II of the transformation process.

Administration and structure

To address the urgently needed reshaping of the organizational structure of UNIDO, a significant number of administrative changes were made in February. Director-General Bulletins and Administrative Instructions (annex I) put into effect a new organizational structure and ensured:

- ❑ Full alignment of the new structure with the guidelines established in the Business Plan by creating three divisions and significantly reducing the Office of the Director-General
- ❑ Establishment of an effective management team by the appointment of all staff required at the Managing Director and Director level
- ❑ Assignment of all staff to new organizational units, with only a few areas concerned dealing with programme support services
- ❑ Finalization of the terms of reference for new organizational units emphasizing clear lines of responsibility and accountability and well-defined performance targets
- ❑ Establishment and strengthening of the Office of Internal Oversight

The emergency measures, introduced in January, were lifted in March as UNIDO's financial situation became clearer.

At the same time, a new financial authorization system was introduced. This was based on simplification of procedures, delegation of authority to middle management levels as required by the Business Plan, empowerment of staff and strong accountability mechanisms. The new system, in particular, delegated authority for transactions under the regular and operational budgets.

The importance of the field in this decentralization process was not overlooked. In response to the Business Plan there was decentralization of responsibility and delegation of authority given to the field offices in May. And, for the first time, the exact location of UNIDO's 30 field offices was announced.

Concrete steps were also taken in May to provide the administrative and procedural framework for decentralization and empowerment of field offices (see annex I).

It was also decided to rationalize the tremendous number of committees and Director-General's Bulletins to provide further administrative and operational clarity. The number of existing Director-General's Bulletins were cut from 250 to just five and the number of existing committees from 110 to only five.

This has led to a much simpler, quicker and smoother administrative system. It has also led to greatly simplified operational procedures for the Organization, resulting in a marked increase in efficiency.

Adjustments were made early in the year to ensure a unified management of the Office of the Director-General consisting of four small units: the Executive Office, the Office of Internal Oversight, the Governing Bodies Secretariat and the Legal Office. These measures ensured greater focus and coordination in the overall management of the Organization and its relations with Member States and other development actors.

Turning now to the organizational structure of UNIDO:

Box 1. Organizational changes

- ❑ Unified management of the Office of the Director-General (ODG)
- ❑ Changes to the Division for Sectoral Support and Environmental Sustainability
 - Two new Branches: Industrial Energy-efficiency, Kyoto Protocol
 - Staff redeployed to enhance Montreal Protocol activities from Division of Investment Promotion and Institutional Capacity-Building
 - Creation of Executive Board (Director-General, Managing Directors, Director of ODG) and Board of Directors (all UNIDO Branch Directors)

Changes were also introduced to the Division for Sectoral Support and Environmental Sustainability to delineate more clearly its core functions and respond to the growing importance of industrial energy-efficiency and the Kyoto Protocol for which two new branches were established. The Division now has five Branches: Cleaner Production and Environmental Management, Montreal Protocol, Kyoto Protocol, Industrial Energy-Efficiency, and Agro-Industries and Sectoral Support. In addition, in view of the importance of Montreal Protocol activities in UNIDO's technical cooperation delivery, a significant number of staff were redeployed from the Division of Investment Promotion and Institutional Capacity-Building to the Division of Sectoral Support and Environmental Sustainability.

On the management side, a new Executive Board and Board of Directors were created.

The Executive Board is the highest level managerial mechanism of the Organization and meets twice a week. It consists of the Director-General as Chairman, the three Managing Directors and the Director of the Director-General's Office. It is the body for ultimate policy direction and final approval of all UNIDO's programme and projects. It has a special role of focusing and ensuring the proper functioning of the service management cycle and implementation of UNIDO's new integrated services.

The Board of Directors meets twice a month to discuss organization-wide issues. It consists of all the managers of the Organization, that is—in addition to the Executive Board members—all Branch and Regional Bureaux Directors. Together, these two bodies provide essential support and advice to the Director-General to ensure the smooth running, appropriate direction, management and monitoring of the Organization’s activities.

Transparency

An important part of the new management philosophy of the Organization is to ensure transparency and openness in all aspects of the management of the Organization. To this end, a number of measures have been enacted:

Box 2. Transparency measures

- ❑ Policy of public access to documents
- ❑ “Management by personal contact”
- ❑ “Direct communication with the Director-General by staff via electronic mail”
- ❑ Open office or open-access to Director-General policy
- ❑ Series of public workshops and meetings with staff to exchange views with Director-General
- ❑ Early disclosure of policies to Member States

- ❑ A policy of public access to documents was initiated immediately after the Director-General took office. In an unprecedented move, all major internal documents and correspondence have been placed in an especially designated room where both staff and representatives of Member States can have full access.
- ❑ “Management by personal contact” has become a common practice whereby the Director-General undertakes visits to the offices of staff for informal discussions. The intention here is for the Director-General to explain personally his policies to staff on an individual basis and to obtain their views and advice. These informal visits by the Director-General have been much appreciated by staff.
- ❑ “Direct communication with the Director-General by staff via electronic mail” has been actively encouraged by the Director-General. This direct communication has improved the corporate spirit in the Organization. It is also changing the hierarchical culture of the Organization, which had imposed a strictly vertical line of command in exchanging information. Another benefit is that the Director-General is able to hear directly from staff of the difficulties and progress in the transformation process.
- ❑ Open Office: An “open-access” or “open-office” policy—where staff can come and freely discuss matters of mutual concern with the Director-General has been instituted. This initiative has enhanced mutual trust and staff understanding and appreciation of the transformation process.
- ❑ A series of public workshops and meetings with staff was another initiative undertaken. Besides the twice-monthly meetings of the Board of Directors where all

directors participate, a series of large-scale workshops with staff were organized. These will be detailed later, but essentially they were to exchange views directly with the Director-General on the transformation process and to refine and have a better understanding of UNIDO's integrated services. The Director-General has also organized several workshops where not only staff but also representatives from Member States, academia and the private sector participated. This broad-based participation has significantly enriched the transformation process.

- Early disclosure of policies to Member States is another important feature of UNIDO's new openness and transparency culture. Without waiting for formal requests for information or documents, the Director-General proactively disclosed important policy initiatives—such as the new staff career development policy—to Member States to facilitate understanding and feedback as well as give a better basis for decision-making. The active use of informal meetings before formal sessions of the policy-making organs—such as the Industrial Development Board and Programme and Budget Committee—also greatly facilitated communication between the Secretariat and governing bodies and, thereby, helped reduce the time required for these sessions.

Phase II. Programmatic changes

Administrative, operational and structural reforms provide the required framework and procedural mechanisms to facilitate UNIDO's transformation. But a concomitant and complementary set of programmatic reforms is required to ensure that the Organization has the new appropriate focus. There was, therefore, a conscious decision at the beginning of the transformation process to initiate a programmatic transformation, along with the administrative reforms that were underway.

Box 3. Major programmatic transformation

- **Major programmatic events: INTERNAL**
 - January - First Global UNIDO Representatives Meeting
 - March - Special Retreat for Senior Staff
 - April - Director-General's Forum on Industrial Development
 - May - Presentation of 10 Integrated packages of services (IDB)
 - July - Brainstorming Workshop with Team Leaders (131 staff)
 - August - Working level Workshops (120 or more staff)
 - September - 16 Service Modules under "3E" concept
- **Major programmatic events: EXTERNAL**
 - Conclusion of Memorandum of Understanding with UNCTAD
 - Meeting with key investment financing experts
- **In addition: UNIDO Representative Meetings**
 - Latin America: Guatemala, 27 - 28 July
 - Africa and Arab Regions: Kenya, 31 July - 1 August
 - Asia: The Philippines, 13 - 14 August
- **Heads of UNIDO Investment Promotion Service Offices Meeting**
 - 2-24 September

A global meeting of UNIDO Country Directors (UCDs) in January at UNIDO Headquarters launched the process. The meeting was convened to implement the Business Plan's mandate for effective decentralization of UNIDO's activities and strengthened field representation.

In a participatory approach, it brought together staff from UNIDO field offices and Headquarters to define practical ways to bring the Organization closer to its clients, taking into consideration the specificities of different countries and regions. At the same time, it launched a process of in-depth programmatic discussions on the orientation and substantive content of key programmes and services. In this context, it provided an opportunity to reshape the relationship between Headquarters and the field and, in particular, the way UNIDO's services are presented and delivered to its clients.

In March, an open discussion of UNIDO's programmes was launched in a special retreat for all senior staff. This retreat was the first of a series of intensive programmatic events involving staff in a fully participatory approach to ensure that the transformation was driven by staff themselves. The full involvement of staff was aimed at leading to more relevant and practical UNIDO services with significantly enhanced impact. Such an approach would also be a better way to achieve understanding by staff and gain their support for the transformation process and—more importantly—the new vision which must be ultimately defined by staff themselves.

The retreat developed initial concepts for UNIDO's services. These concepts were further analyzed by groups of technical staff and refocused into 19 service proposals. The proposals were then subject to in-depth analysis by the Office of the Director-General under the leadership of the Director-General himself. This resulted in revision of the proposals to optimize in-house integration, maximize synergies and avoid duplication with other organizations and development actors, as well as maximize potential development impact.

Another important programmatic event took place in March. This was a meeting convened with key investment financing experts to explore new opportunities and better define UNIDO's role in the area of investment and investment promotion.

The end of March saw the conclusion of an important memorandum of understanding between UNIDO and UNCTAD. It spelled out for the first time the complementary roles of the two organizations in the field of investment promotion and small- and medium-scale enterprise development.

The most important phase of the programmatic transformation was launched in April to define UNIDO's new integrated packages of services. The development of integrated packages of services was called for explicitly in the Business Plan and identified as a major comparative advantage of UNIDO in the May 1997 Danish assessment of the Organization. Indeed, the Danish assessment recommended that UNIDO urgently develop such core services. To this end, a series of follow-up meetings to the programmatic retreat were held.

The major objective of these meetings was to define UNIDO's integrated services bearing in mind the Organization's unique identity with respect to industrial development and two key requirements. The first was to define UNIDO core competencies in terms of a limited range of services that would maximize the synergies in the house by ensuring full cooperation and coordination. The second was to identify the concrete areas in implementing the Organization's core competencies where it would require cooperation with United Nations agencies—such as UNCTAD, UNDP, ILO, FAO, ITC—and other development partners. Special attention was paid to strengthening cooperation with the private sector and civil society, particularly new partnerships with the research community and non-governmental organizations. Other United Nations organizations, the Bretton Woods institutions (World Bank, IMF, WTO), bilateral agencies, the private sector and civil society must remain major priorities for a new revitalized UNIDO.

At the same time, the overall objective of the meetings was to ensure that UNIDO's services, although universal in scope, achieved an appropriate geographic focus on

Africa and the least developed countries. Indeed, in recognition of the importance of Africa in UNIDO's future activities, the Director-General announced that he would devote his time in the second half of the year for traveling to Africa. The Director-General proposed to learn first-hand of African concerns in order to launch a more directed and intense programme of assistance. The Director-General has since visited a number of countries in North Africa (Algeria), West Africa (Burkina Faso, Côte d'Ivoire) and East Africa (Kenya, Uganda, United Republic of Tanzania). New programmes of assistance are being developed based on UNIDO's integrated services, initially for Burkina Faso, Kenya, Uganda and United Republic of Tanzania.

In April, an examination of the 19 service proposals revealed that they represented a comprehensive array of services proposed by individual technical branches of UNIDO but lacked overall harmonization. To avoid possible duplication, the services were redesigned by teams of technical staff and their branch directors drawing on insights from follow-up meetings to the March retreat.

One of the most important of these follow-up meetings was the Forum on Industrial Development held in early May. This Forum brought together high-level representatives from Member States, eminent outside experts and development practitioners as well as UNIDO staff. It was the first time that such an intense dialogue on UNIDO's programmatic focus had taken place between Member States, outside experts and staff. The Forum generated valuable ideas with which to further refine the services.

As a result of these meetings, UNIDO developed a set of 10 integrated services, then called "products" which were presented to the nineteenth session of its Industrial Development Board in May.

These integrated products were a major attempt by the Organization to translate the Business Plan into concrete action. Building on relevant expertise and experience, they represented the point of convergence between administrative reform and programmatic refocusing of UNIDO: a concrete means to ensure cross-organizational cooperation within UNIDO, avoid duplication with other agencies and lay the basis for promoting complementarity and cooperation, thus ensuring a sharper focus, better integration and impact of services. They also represented a practical tool to address the urgent needs of the recipient countries as well as a vehicle to link the demands of recipient countries with the priorities of donors. Being large-scale integrated products, they represented a significant departure from past practice where UNIDO's activities were fragmented in a series of small, often administratively cost-ineffective projects.

However, the 10 products represented a comprehensive offer of services based on the past work of the Organization. Despite their achievements, they did not as yet encapsulate the future orientation — based on the Organization's comparative advantages—that was required. And they still had not eliminated internal overlaps between organizational units.

To aid further the consolidation of UNIDO's activities, a major effort was also undertaken to streamline the Organization's portfolio of projects. These efforts resulted in the operational completion of 15 per cent of the projects at the time of the Industrial Development Board session in May. A further 18 per cent were completed by the end of 1998.

Integrated services and service modules

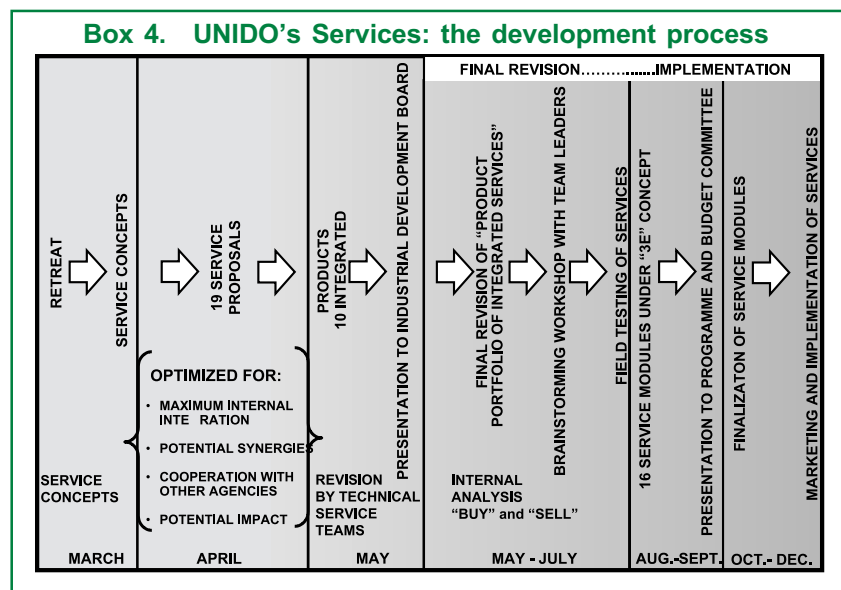
UNIDO's integrated packages of services were further refined after the nineteenth session of the Board in May 1998, culminating in a document issued on 13 July entitled "Product Portfolio of Integrated UNIDO Services". This distinguished the Organization's services in 10 core areas comprising 47 components and 192 main services:

- ❑ Industrial governance
- ❑ Industrial export capacity-building
- ❑ Industrial information networking
- ❑ International industrial partnerships
- ❑ Quality and certification for industrial competitiveness
- ❑ Cleaner industry and environment
- ❑ Efficient energy development
- ❑ Agro-related industrial development
- ❑ Local industrial development
- ❑ Women's entrepreneurship development

An innovative managerial tool—utilizing the concept of “buy and sell”—was also developed to ensure the smooth implementation of the new services. The new “buy and sell” concept is an internal mechanism to exchange various components of the integrated services among branches as well as to “buy” services from other agencies which UNIDO does not, or cannot, provide itself. This approach makes routine cooperation between the various branches of UNIDO, other agencies—particularly within the United Nations system—and other development actors. Most importantly, it avoids duplication and overlap.

Each integrated service was designed to reflect the dual role of UNIDO as a Global Forum for Industry and as a provider of specialized technical cooperation services. Both of UNIDO's roles are closely linked and complementary. For example, lessons learned in UNIDO's technical cooperation work often provide practical insights—in the form of best practices—which can be disseminated to industrial policy makers through UNIDO's various studies, workshops and conferences. Moreover, UNIDO's analytical work often provides insights as to where technical cooperation will have the most impact.

On the basis of consultations with staff and Member States, the integrated packages of services were dismembered, revised, streamlined and regrouped into 16 “service modules³”. Each service module represents the final stage of a complex process of refinement based UNIDO's approach in dealing with a major concern in industrial development.



³A full explanation of the 16 service modules is given in annex II.

Box 5. UNIDO's 16 Service Modules

INTERVENTION LEVEL	COMPETITIVE ECONOMY Making industry more efficient	PRODUCTIVE EMPLOYMENT Promoting employment in industry	SOUND ENVIRONMENT Environmentally friendly industry
GOVERNANCE, POLICY and STRATEGY	Industrial policy formulation and implementation Statistics and information	SME policy framework Policies for women's entrepreneurship development	Environmental policy framework Climate convention and Kyoto Protocol
SERVICES TO ACCELERATE SUSTAINABLE INDUSTRIAL DEVELOPMENT	Metrology, standardization, certification & accreditation Investment and technology promotion Continuous improvement and quality management	Entrepreneurship development Upgrading agro-industries and related technical skills	Energy efficiency Rural energy development Cleaner production
BUSINESS and SUPPORT SERVICES			Pollution control and waste management Montreal Protocol

The refocusing of UNIDO's services in service modules has aligned the programmatic focus of UNIDO's activities with its long-term goals of sustainable industrial development — the so-called “3 Es”:

- ❑ Competitive Economy—making industry more efficient
- ❑ Productive Employment—promoting employment in industry
- ❑ Sound Environment—environmentally friendly industry

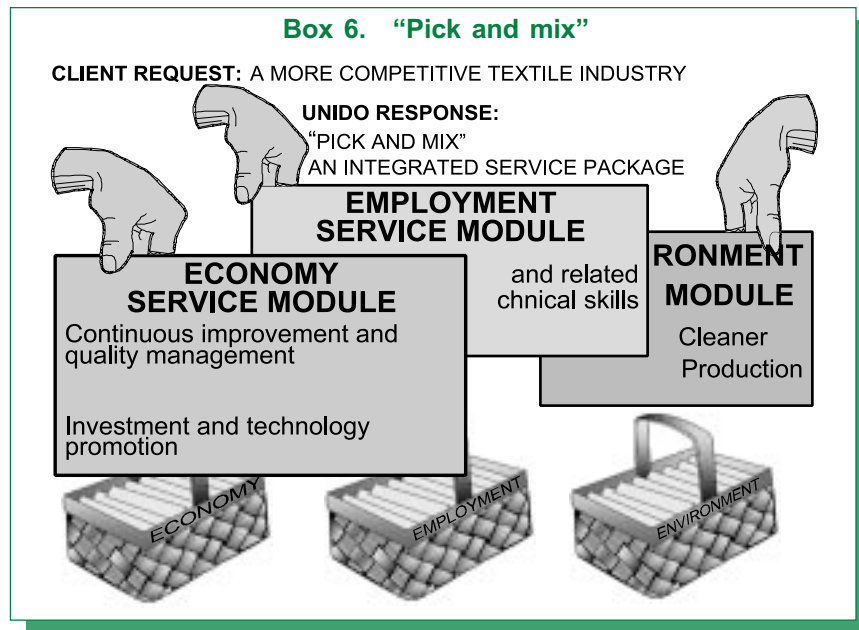
The “3 Es” are in line with the objectives of Agenda 21 and those of other United Nations agencies such as UNDP.

UNIDO's clients are now able to “pick and mix” services from the three baskets according to their specific national or regional needs by:

- ❑ Selecting services from within one service module
- ❑ Integrating service modules to maximize synergies and complementarities
- ❑ Integrating UNIDO services or service modules with the services of other technical cooperation partners within or outside the United Nations system, such as UNCTAD, ILO, FOA, World Bank, private sector and civil society. This “pick and mix” approach enables clients to customize services and build teams of experts from UNIDO, other agencies and development partners to meet their individual needs.

Three levels of intervention for UNIDO's services have also been distinguished: (a) governance, policy and strategy; (b) services to accelerate sustainable industrial development; and (c) business and support services.

This final process of regrouping and concentration of UNIDO's services into 16 service modules has achieved a sharper focus for the Organization's activities and a closer identification and coherence with broader United Nations objectives. At the same time it has been translated into a practical programme by focusing UNIDO's activities on the two major pillars of the Business Plan and its three special thematic areas of concentration.



Box 7. Cooperation with civil society organizations (CSOs)

Strengthened and innovative cooperation between the public and private sectors are key factors in meeting the challenges of the formidable changes in the world economy and their implications for industrial development. The contribution of industry and business associations and chambers of commerce and industry to industrial development are equally important as the contribution of development NGOs, technical and professional organizations, specialized CSOs in the areas of environment, women, information and standardization, trade and consumer unions, foundations as well as research and development institutions and universities.

Cooperation with the private sector and civil society and its representative organizations is a major priority for a revitalized UNIDO. The new UNIDO service modules provide the basis for cooperation with other development actors such as CSOs, as an essential complement to the development support provided by the Organization. CSO involvement in programmes and projects at the country level ensures a full, coherent and realistic appreciation of industrial development problems. It also allows UNIDO to respond more adequately to client needs. This participatory approach is achieved through the promotion of partnership arrangements as well as the implementation of integrated programmes concentrating on CSO capacity-building and institutional development. Networking with CSOs helps to generate a broad-based participation of people and high-level awareness of sustainable development issues at the country level.

Technical cooperation activities have included the formation and strengthening of entrepreneurial associations at the provincial and state levels in the Solomon Islands and the Federated States of Micronesia, as well as the establishment of an NGO credit centre in Lesotho in cooperation with national CSOs. In Guatemala, Honduras and Nicaragua, chambers of commerce and business associations together with university support have been pivotal in implementing a UNIDO project providing managerial and financial advice as well as training to women entrepreneurs in food processing. In the United Republic of Tanzania, UNIDO has continued to strengthen the institutional framework of the Tanzanian Food Processors Association through training staff and assisting in establishing a savings scheme. Through the Gulf of Guinea large marine ecosystem project, UNIDO has facilitated the establishment of a regional network of CSOs in the area of environment. More than 35 CSOs from several West African countries were involved in a wide range of activities, including increased public awareness, mangrove restoration, waste management and environmental education for protection of fishery resources.

Box 8. Correspondence of the Service Modules to the Business Plan

BUSINESS PLAN	Group I		Group II		3 Cross-cutting activities		
	Strengthening of Capacities		Cleaner and Sustainable Industrial Development		Agro-based Industries	SMEs	Women
	Promotion of Investment Technology	Support to Global Forum/ Policy Advice	Support to ESID	Development of Norms/ Implementation of Protocols			
16 SERVICE MODULES	Investment and technology promotion	Industrial policy formulation and implementation (incl. Policy framework for investment and sectoral strategies) Statistics and information Metrology, Standardization, certification and accreditation Continuous improvement and quality management	Environmental policy framework Cleaner production Pollution control and waste management Energy efficiency Rural energy development	Montreal Protocol Kyoto Protocol	Upgrading agro-industries and related technical skills	SME policy framework Entrepreneurship development	Policies for women entrepreneurship development

What distinguishes the programmatic transformation is fundamental:

Box 9. How is the programmatic transformation different?

- Not budget-driven
- Systemic approach—administrative, operational, financial, staff career development system, performance appraisal
- Bottom-up; full participatory approach (involving large numbers of staff at all levels)
- Extensive field-testing (Burkina Faso, Guatemala, Honduras, Kenya, Nicaragua, Uganda, United Republic of Tanzania, Viet Nam)
- Programmatic changes not treated in isolation

Phase III. Implementation

To facilitate the implementation of UNIDO’s programmatic transformation, the Organization designed specific training workshops and seminars, a new management framework and service management cycle, a new staff career development system and other support mechanisms. In addition, a number of country missions to selected donor and recipient countries were arranged to test the market and implement the new services.

Training

Special efforts were made to ensure staff understanding of and participation in the development of the new services and supporting administrative and operational procedures. It is in this context that a series of workshops were held since January beginning

with the global UCD meeting, the brainstorming session with team leaders, the workshop with working-level staff, the Director-General's Forum, the meetings with UNIDO Representatives (formerly UCDs) and Heads of IPS offices. In addition, a series of specially designed training workshops were carried out in July, August and September. These workshops, with small numbers of staff and an external trainer, sought to enhance communication skills and, thereby, make more effective presentation of the new services. All levels of staff were involved in this process, including the Director-General, the Managing Directors and the Director of the Office of the Director-General.

Now that the service modules have been finalized, a new round of training with the technical branches and the Regional Bureaux is being launched. The aim is to ensure that branches fully understand the appropriate responses to the three types of service requests identified in the new service management cycle; the nature and scope of the service modules; how the “buy and sell” concept works; how the services can be implemented; how internal and external cooperation is to be effected; how service teams are drawn up; and what is the role of team leaders and service teams.

Management framework and service delivery cycle

To deliver efficiently the new services developed as a result of the programmatic transformation, all UNIDO resources have to be integrated, costed and allocated in a transparent and efficient manner. The impact of the services has also to be assessed and related to their costs and benefits. Accordingly, UNIDO's new management framework has refocused the Organization in a matrix framework with a regional dimension—represented by the regional bureaux—and a functional dimension, represented by the technical branches. Cross-organizational service teams, led by empowered service team leaders, will be the primary means for developing and delivering the services.

Box 10. New management framework and service delivery cycle

- ❑ UNIDO's new management framework: matrix organization with a regional dimension represented by Regional Bureaux and functional dimension represented by technical branches
- ❑ Creation of cross-organizational service teams with empowered team leaders as the primary means of developing and delivering services
- ❑ Services delivered in three ways: (1) comprehensive programmes; (2) simple service projects; (3) special service proposals
- ❑ Pivotal role for Regional Bureaux, Managing Directors, Executive Board to screen, define, refocus, approve requests, draw-up service teams, and appoint service team leaders
- ❑ Introduction of a staff time-recording mechanism as a major input in the development of a comprehensive cost accounting system to measure the full cost of UNIDO's services
- ❑ Formal evaluation process enhanced by rapid impact assessments by UNIDO staff and representatives in the field to assess impact

The new service management cycle is designed as a further stage in the implementation of the Business Plan and the programmatic transformation. It translates the management framework into operating procedures. The aim is to ensure that the services are delivered in a manner that will have the greatest impact and, thereby, make the most effective contribution to the achievement of sustainable industrial development.

UNIDO's services and service modules are delivered in three ways:

- ❑ Programmes—comprehensive packages of services that combine the expertise of different service modules in an integrated manner
- ❑ Projects—services that are primarily focused on a single module but can also draw on inputs from other modules
- ❑ Special service proposals—services that fall outside the normal scope of the service modules

In all three modes of delivery, there is a straightforward procedure for processing requests for UNIDO's services. Depending on the type of request received for services, this will involve the regional bureaux, Managing Directors and Executive Board. These will be involved in clearly defined instances and in a totally integrated fashion, to screen, define, approve services requests and, where appropriate, draw up UNIDO service teams and appoint team leaders. Regional bureaux and field offices will play a pivotal role in the service management process. They will have a significantly strengthened screening function. They will also be responsible for the overall monitoring and coordination of service delivery at country and regional levels and play an integral role in the implementation process. In particular, they will be responsible for ensuring that UNIDO's technical cooperation is in line with the competencies of the Organization—as expressed by the new service modules—and expeditious and fully responsive to client needs. They will therefore screen all requests, ideas and concepts for potential technical cooperation before they are accepted for further development or approval.

The technical branches are responsible for ensuring that UNIDO's response to clients is efficient and technically effective. A comprehensive cost accounting system is being introduced to enable UNIDO to measure the full cost of delivering its services. The new system, to be introduced by June 1999, will facilitate informal decisions on resource allocation and future budgeting.

Under the service delivery system, the Organization's effectiveness will be judged primarily by the impact of its services. Along with the measuring of costs through the new cost accounting system, the impact of services will be assessed through a variety of means but mainly the evaluation process operated by Internal Oversight. In addition, UNIDO Representatives will now add to the formal evaluation process by providing—through interviews with government officials, client institutions, beneficiaries and donor agencies—assessments of the impact of the delivery of UNIDO services in the countries of their coverage.

Career development system and other support mechanisms

The new management framework, service management process and cost accounting system introduce fundamental changes in the way the Organization operates. A proper human resource and skill base is fundamental to the success of UNIDO's transformation—particularly, the programmatic transformation. To this end, a new staff career development system and other support mechanisms are being introduced. They will become fully operational during 1999.

The system entails new job descriptions for all staff based on the service modules; a new comprehensive training programme—based on the skill gaps revealed by an inventory of existing staff skills and the staff competencies and skills required to implement the service modules; a rotation policy between Headquarters and field offices and between Headquarters posts; and a revamped roster of consultants.

Box 11. New staff career development system

- ❑ Proper human resource planning is fundamental to the success of the transformation process
- ❑ UNIDO's new staff career development system will be fully operational during January 1999 to meet the requirements of programmatic transformation and the new integrated services and service modules. The system includes:
 - ❑ A new system of job descriptions for all staff based on service modules
 - ❑ An inventory of skills to identify skill gaps
 - ❑ A new comprehensive training programme to close skill gaps
 - ❑ A rotation policy between Headquarters and field offices and between Headquarters posts
 - ❑ A new revamped roster of consultants
 - ❑ A new staff performance appraisal system focusing on teamwork
 - ❑ A new staff incentive scheme containing, among other things: training abroad, merit awards, a publication of achievements to motivate staff
 - ❑ A proper human resource planning to renew and refresh UNIDO's human resource base in response to expected retirements in years up to 2003

A new staff performance evaluation focusing on teamwork is also being developed along with an incentive scheme. This scheme will feature incentives such as training abroad, merit awards and publication of achievements to motivate staff further.

UNIDO believes that—with proper human resource planning, a well designed staff career development system, a new system of staff performance appraisal which also rewards teamwork and a new management framework and service management cycle—efficiency will be greatly enhanced, stress on staff will be reduced and staff morale will increase. Retirements expected in the years up to 2003 will offer an opportunity to renew and refresh the Organization's human resource base as well as ensure more career stability and longer-term job opportunities.

Enhanced information systems are also being developed to support programmatic decision-making and monitoring—particularly to monitor projects, integrate and strengthen financial reporting and enhance communication with field offices and Investment Promotion Service offices.

As requested by Member States, performance indicators are being developed to assess the developmental impact of services so as to facilitate decision-making by UNIDO managers and Member States.

Missions to donor and recipient countries

An important part of the implementation of UNIDO's transformation process—particularly the programmatic transformation—is a series of missions to donor and recipient countries to present and test market UNIDO's integrated package of services to its clients. To this end, selected missions to donor and recipient countries are being scheduled. Based on a clear idea of what the Organization can offer in terms of a limited number of integrated services or service modules, the missions are designed to build or strengthen awareness of UNIDO's services.

For recipient countries, they aim to customize the services to make a difference at the field level and have a sustainable development impact. For donor countries, they seek to gain political support for the transformation process and financial support for the implementation of the integrated services.

In carrying out the missions to recipient countries, UNIDO has been careful to develop a clear idea of what type of mission is required for the specific needs of individual countries. These can vary from a short mission by one or more technical staff based on earlier work by UNIDO Representatives; a longer mission to identify demand-driven projects and programmes; or a fully-fledged programming mission based on already identified demands.

UNIDO and system-wide cooperation

An important focus of the implementation process will be UNIDO's new decentralized and empowered network of field offices. The process of effective decentralization and delegation of authority to field offices was initiated in the UNIDO Country Directors meeting in January and consolidated in various subsequent Director-General's Administrative Instructions. The challenge now is to fully integrate UNIDO into coherent United Nations approaches at the country level—in particular, the new United Nations Development Assistance Framework (UNDAF)—and to ensure a consistent system-wide approach to development. The groundwork for this further integration at the country level is now being laid with UNIDO's active participation in UNDAF pilot countries. It is also working closely with United Nations Resident Coordinators to undertake integrated programming in a number of African countries, including Ghana (environment), Guinea (private sector development) and Côte d'Ivoire (environment and private sector development), as well as countries in other regions.

Collaboration is particularly important in the context of reform and refocusing of the multilateral system. It is also important to transform UNIDO into an organization with a clear purpose and identity in the United Nations system. Before, UNIDO suffered from isolation from the rest of the system and a lack of focus. Duplication and overlap with other agencies was also a problem. Box 12 highlights 1998 achievements in this area. In addition to the agreements signed with UNCTAD, UNDP, and UNEP, UNIDO initiated important new cooperation with WTO, ITC, the World Bank and IMF in the implementation of the WTO Integrated Framework of Assistance to LDCs, aimed at improving their trade sectors and trade-related activities. A basic implementation agreement was signed with the United Nations Fund for International Partnerships (UNFIP), and a joint programme is being developed with HABITAT.

UNIDO is committed to systemic approaches and the Secretary-General's overall reform proposals. To this end, it recently seconded a senior staff member to join the United Nations Development Group Office in New York. The reforms launched by the Secretary-General have lent a new and welcomed momentum to the United Nations agenda. The transformation of UNIDO through its new integrated services is dedicated to the overall success of renewal and revitalization in the United Nations system and enhanced system coherence, cooperation and effectiveness.

Since the transformation process began in January 1998, much has been achieved and many difficulties overcome. A new working culture and way of doing business has been created. The transformation process of UNIDO has been the most dramatic and extensive in its history. As the Director-General reminded the Programme and Budget Committee in September 1998, it is vitally important that UNIDO demonstrates its relevance and impact in the continued debate on the future of the United Nations as a system.

Box 12. Inter-agency collaboration

Inter-agency collaboration in UNIDO features five major objectives:

- ❑ To contribute to and fully support system-wide reform initiated by the Secretary-General
- ❑ To align UNIDO policy firmly with the broad United Nations global agenda, and in this context, UNIDO's corporate vision and programmatic focus
- ❑ To develop a practical country programme concept within the UNDAF framework
- ❑ To elaborate and operationalize concrete partnerships with the private sector and civil society
- ❑ To firmly establish Africa and LDCs as UNIDO's number one priority and operationalize this priority

How were these priorities implemented? Together with the integrated programmes described in chapter III, they were implemented through the elaboration of a number of inter-agency agreements. The following selection are indicative of the general approach UNIDO is taking in developing strengthened inter-agency collaboration.

- ❑ United Nations Conference on Trade and Development (UNCTAD)

This was the first agreement. It was important to eliminate perceived overlaps and duplication, particularly in the area of investment promotion. A memorandum of understanding was signed on 26 March. A progress report in May identified possible areas of collaboration. These were further specified with a clear division of labour in a second progress report in October. There is now a clear focus of collaboration on *investment promotion and SMEs*.

- ❑ United Nations Development Programme (UNDP)

UNDP has traditionally been a major partner and source of funds for UNIDO. With the promotion by UNDP of national execution, this relationship changed drastically and UNIDO had to seek alternative sources of funding. The joint letter signed on 31 October marks a new positive point of departure between the two organizations. It has an important focus of collaboration at the *policy, programmatic and operational levels*.

It also represents important potential support for the implementation of the UNIDO integrated packages of services or programmes at the field level, focusing on sustainable industrial development in Africa.

At the same time, UNIDO is the only specialized agency participating in the United Nations Development Group Office (DGO). A senior UNIDO staff member has been seconded to this office since 1 September on a non-reimbursable loan to help develop common tools for the system, and especially to further the development of the UNDAF process. Participation in the UNDAF process is mandatory for all UNIDO Representatives in their countries of coverage. UNIDO participation in DGO was the subject of appreciation in ACC and held up as a model for others to follow.

- ❑ United Nations Environment Programme (UNEP)

A global joint programme was signed in Buenos Aires in November. The focus of collaboration will be *industrial clean production processes, chemical pollutants, fresh water and other joint activities*. UNIDO has enjoyed significant and successful collaboration with UNEP in recent years in the area of National Cleaner Production Centres. The joint programme is along the lines of the UNCTAD agreement and will help strengthen UNIDO's focus on sustainable industrial development, as well as its operational capacity.

- ❑ Cooperation with other organizations in the system has taken diverse forms, such as participation in the WTO programme on trade-related activities and with the Department of Economic and Social Affairs on work of the Commission on Sustainable Development.

Part two

UNIDO performance

Introduction

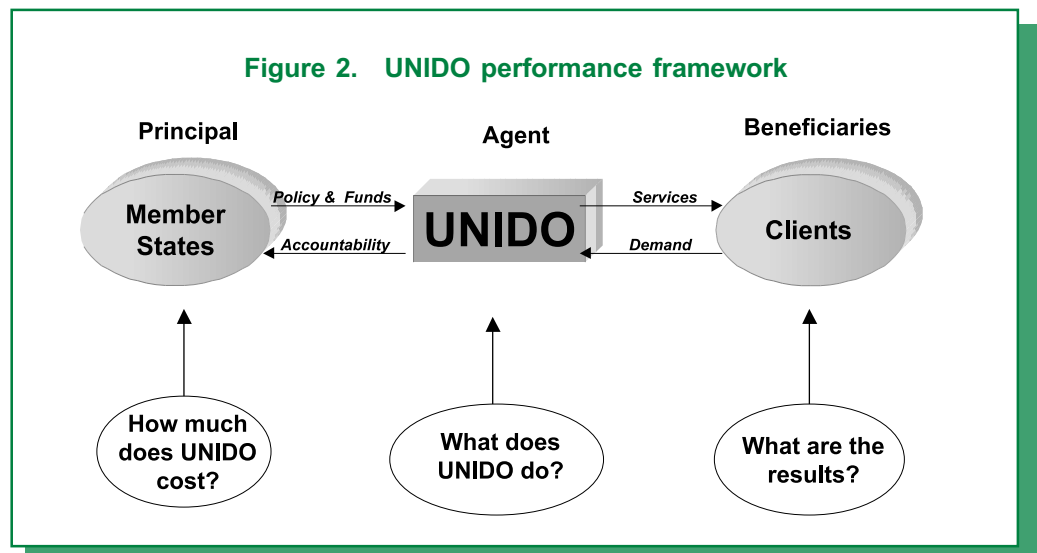
Having outlined in part one the measures undertaken in 1998 to transform the Organization, the following chapters focus on performance. Measuring the performance of development organizations is a daunting task. This report addresses that challenge in a number of ways: in narrative form in the following chapters and in tabular material in the programme performance report, which constitutes an integral part of the Annual Report. In chapter I, an initial attempt is made to apply a number of new indicators to facilitate an assessment of organizational performance in 1998. In subsequent chapters, performance is addressed from a variety of perspectives.

A selection of successful projects highlighted in chapter II demonstrate how past UNIDO activities have made a measurable impact in recipient countries. Indeed, identifying and building on existing strengths was a keystone in the transformation process. Other chapters attempt to enable the reader to evaluate UNIDO performance against the Business Plan.

Performance indicators

In this section, a simple framework is used to facilitate a broad assessment of performance. For this purpose, UNIDO can be considered as an “agent” for development, mandated by Member States (the “principal”) to provide services to clients and beneficiaries in developing countries and economies in transition.

Through the programme budgeting process, Member States provide the Director-General with policy directives and overall performance goals together with requisite funds. Within the broad parameters set by Member States, the Director-General designs the service delivery mechanism on the basis of knowledge, experience and networks. Services are delivered in response to the demand for them. The Director-General is accountable to Member States for the achievement of the goals and the manner in which resources are utilized. The Director-General also provides advice to Member States on new policy initiatives and proposals.



Within this framework, UNIDO performance may be reported in such a way to answer three broad questions: What does UNIDO do? What are the results? and How much does it cost? In the present report these questions are applied to 1998 performance. Emphasis is placed on the impact on clients in their efforts to industrialize, and on outputs and results rather than inputs. Attempts are made to use performance indicators systematically.

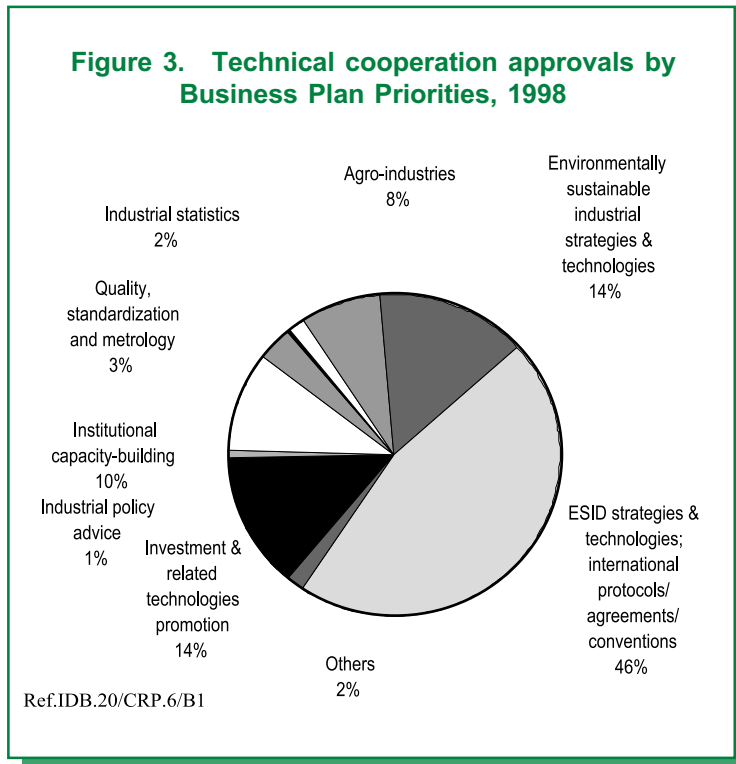
What did UNIDO do?

Part one of this report provides information on the measures taken in 1998 to transform UNIDO. In part two, an overview of the guiding principles and methodology of the new UNIDO service delivery is presented in chapter III, which highlights 16 integrated packages of services, including seven pilot cases featuring programmes for five LDCs.

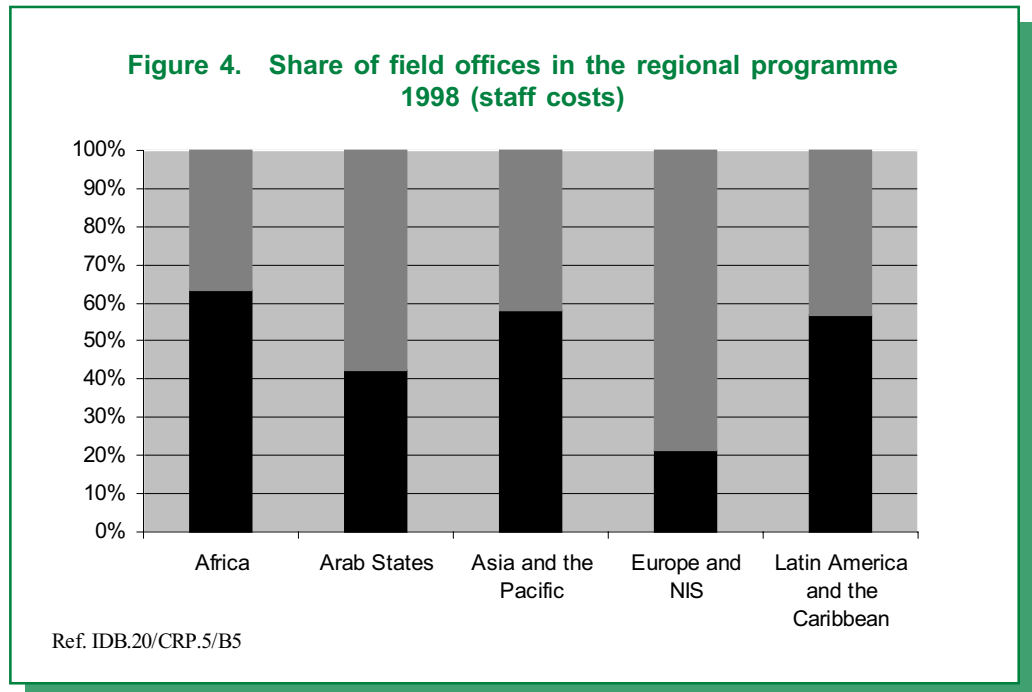
Chapters IV and V provide achievements and significant initiatives of the technical branches established along the lines of the priorities of the Business Plan. Illustrative examples show how the branches and divisions have responded to those priorities and to the transformation process.

An analysis of approvals under the Business Plan priorities shows that projects under “environmentally sustainable industrial development strategies and technologies, and international protocols”¹ accounted for 46 per cent of the UNIDO total in 1998 (figure 3). “Environmentally sustainable industrial strategies and technologies” constituted the second largest share (14 per cent), followed by “promotion of investment and related technology” (14 per cent) and “institutional capacity-building” (10 per cent).

Developments in the field representation programme are provided in chapter VI. Particular focus is given to decentralization of functions from Headquarters to field offices and accompanying delegation of authority and resources. The focus on the field started to take effect gradually in 1998 as the transformation progressed. Taking staff cost as a base, the share of the field offices in the regional programmes averaged 57 per cent in 1998. As shown in figure 4, the highest share was visible in Africa (63 per cent), followed by Latin America and the Caribbean (58 per cent).



¹Additional information on the definition of environmentally sustainable industrial development categories, based on the Business Plan, is provided in chapter VIII.



What were the results?

In chapter II, selected UNIDO success stories are presented. Reflecting the fact that developmental results are achieved after several years of UNIDO assistance, most selected projects have been operational for several years. For each project, the goal, strategy and identifiable results achieved are reported in summary form. This section shows in concrete terms the potential of UNIDO programmes.

How much did UNIDO cost?

Services delivered to UNIDO clients in 1998 are summarized in the aggregate statistical analysis (chapter VIII).

Chapter IX describes developments in mobilization of funds for the delivery of integrated packages of services. It also provides an overview of strategies and approaches in 1999, as well as statistics on voluntary funds mobilized. In 1998, UNIDO received voluntary contributions amounting to \$34 million from 31 Member States. Figure 5 shows the share of voluntary contributions according to lists of States in Annex I to the Constitution. Sixty-five per cent of voluntary contributions were received in the Industrial Development Fund, and 35 per cent as trust funds, including self-financed trust funds.

In terms of the regular budget, receipts for payment by Member States of assessed contributions totaled \$54.6 million for 1998 (including overpayments from 1997). Figure 6 indicates the ratio of voluntary against assessed contributions.

Other significant performance indicators are provided in tabular form in the programme performance report issued as part of each UNIDO Annual Report. For 1998, the programme performance report is available in two parts: operational statistics and other appendices (IDB.21/11-PBC.15/11), and a list of technical cooperation projects (IDB.21/12-PBC.15/12).

Figure 5. Voluntary contributions received in 1998

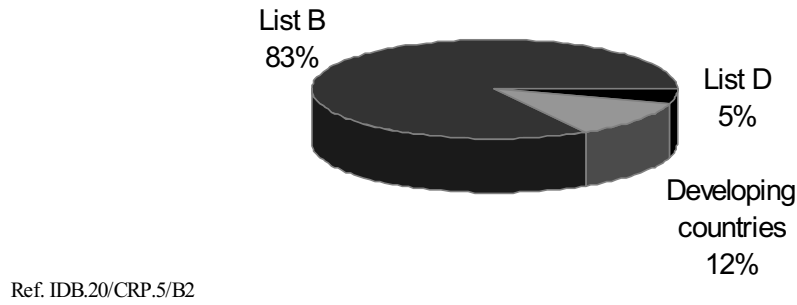
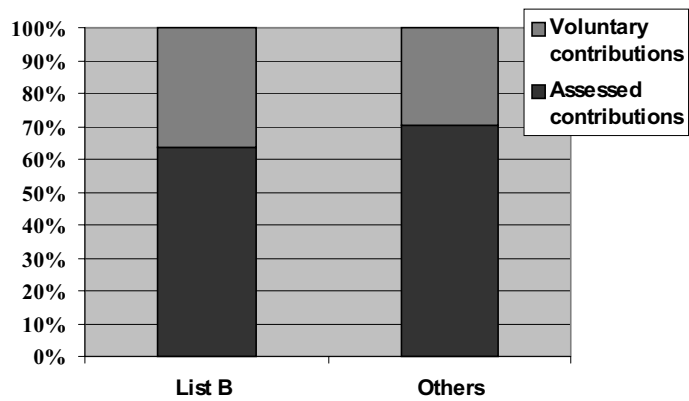


Figure 6. Ratio of voluntary against assessed contributions in 1998





Success stories

Global: Montreal Protocol on Ozone Depleting Substances

Funding: \$153,994,000 (total for 252 projects under implementation)

Duration: 1993 (ongoing)

Goal: To phase out ozone depleting substances in developing countries and economies in transition.

Issue: UNIDO is one of four implementing agencies of the Montreal Protocol, which calls for the phase out of ozone depleting substances (ODSs). UNIDO deals with eliminating the use of ODSs in refrigerants, foams, aerosols, solvents, and phase out of the use of methyl bromide as a fumigant. The other implementing agencies are UNDP, UNEP and the World Bank.

Strategy: UNIDO assistance focuses on direct support to enterprises in converting their production lines to eliminate the use of ODSs, in particular replacement or retrofitting of equipment for adaptation to alternative substances that are environment friendly and often require considerable investment. UNIDO also provides support to the ozone authorities appointed in each country, by assisting them in the formulation of country programmes and strengthening their capacities to make informed decisions on technology and policy options. Advice is provided on plant-level conversion to non-ODS based production lines and substances, capacity-building and alternatives to ODSs as fumigants. These services are provided for aerosols, air conditioning, foams, aqueous and semi-aqueous cleaning and solvent cleaning.

The objective of UNIDO's programme to phase out methyl bromide is to demonstrate the feasibility of economically sound alternatives in applications envisaged in the Montreal Protocol. The projects are designed to substitute the use of methyl bromide, including its use as a fumigant in agriculture.

Results

- Country beneficiaries of UNIDO programmes to phase out CFC-11 and CFC-12 in refrigeration include Algeria, Argentina, Barbados, Benin, Brazil, Burkina Faso, Cameroon, China, Egypt, Gambia, Guinea, Guyana, Indonesia, Islamic Republic of Iran, Jordan, Kenya, Lebanon, Mexico, Morocco, Mozambique, Nicaragua, Nigeria, Pakistan, Philippines, Romania, Senegal, Sudan, Syrian Arab Republic, Tunisia, United Republic of Tanzania, Venezuela, Viet Nam, Zimbabwe.

Phase out of 6,338.75 ODP tonnes.¹

- ❑ 21 country beneficiaries of UNIDO programmes to eliminate ozone depleting substances in the foam sector (Algeria, Argentina, Brazil, Côte d'Ivoire, Cameroon, China, Croatia, Democratic People's Republic of Korea, Egypt, Indonesia, Islamic Republic of Iran, Lebanon, Malaysia, Nicaragua, Romania, Sudan, Syrian Arab Republic, The former Yugoslav Republic of Macedonia, Tunisia, Turkey, Venezuela).

Phase out of 3,245 ODP tonnes.

- ❑ 10 country participants in UNIDO programmes to eliminate CFCs in industrial production of aerosols (Algeria, Côte d'Ivoire, Croatia, Kenya, Lebanon, Romania, Sudan, Syrian Arab Republic, Tunisia, United Republic of Tanzania).

Phase out of 2,664.50 ODP tonnes.

- ❑ 10 country beneficiaries in elimination of ODSs in production of solvents (Algeria, Brazil, China, Democratic People's Republic of Korea, Egypt, India, Kenya, Pakistan, Peru, Yugoslavia).

Phase out of 400.9 of ODP tonnes.

- ❑ 18 country requests for implementation of demonstration projects to assess economic implications of alternative pesticide methods (Argentina, Botswana, Brazil, Cameroon, China, Croatia, Democratic People's Republic of Korea, Jordan, Kenya, Mexico, Morocco, Syrian Arab Republic, Thailand, Tunisia, Turkey, Uruguay, Viet Nam, Zimbabwe).

Cuba is the first country to phase out the use of methyl bromide in tobacco cultivation.

Global: National Cleaner Production Centres Programme

Funding: \$7,000,000 (Brazil, Czech Republic, Japan, Netherlands, Norway, Switzerland)

Duration: 1994 (ongoing)

Goal: To promote cleaner production methods and environmental management.

Issue: Industrial pollution can be reduced through a series of preventive measures aimed at optimizing production processes, thereby reducing the consumption of raw materials. Although the experience in industrialized and developing countries shows that it is possible to lower production costs and at the same time reduce environmental impact by applying cleaner production methods, the concept of cleaner production is still in its embryonic stage. National environmental and industrial policies often maintain traditional approaches to environmental control by merely setting discharge

¹ODP: The ozone depletion potential of the chlorine or bromine-containing compound is a measure of its relative ability to destroy stratospheric ozone.

standards and implementation schedules based on pollution abatement technologies for the end of the production cycle. This discourages many industries from adopting cleaner production methods. Furthermore, manufacturers often lack information about clean technologies and methods of reducing the use of raw materials and/or the emission of pollutants.

Strategy: Cleaner production is based on the continuous application of an integrated environmental strategy applied to production processes, products and services. The aim is to achieve ecological efficiency and reduce health and environmental risks. In reference to production processes, cleaner production involves the conservation of raw materials and energy, elimination of toxic raw materials and reduction of the quantity and toxicity of all emissions and wastes. When applied to manufacturing, cleaner production means the control of the entire product cycle, from use of raw materials to disposal. Finally, anti-pollution measures have to be incorporated into designing and delivering services.

National Cleaner Production Centres set up by UNIDO in cooperation with local institutions are in charge of four activities: in-plant demonstrations, training, information dissemination and policy assessment and advice. In-plant demonstrations show how the cleaner production concept functions in a given country and in a given industrial sector. Training is conducted through seminars and in-plant demonstrations. The dissemination of information has several objectives: to raise awareness about the advantages of cleaner production, establish databases on environment-friendly technologies and serve as a forum for the exchange of experiences. Finally, the Centres assess existing environmental policies and provide guidance on how to better incorporate the cleaner production concept.

Results

- ❑ 15 National Cleaner Production Centres established (Brazil, China, Costa Rica, Czech Republic, El Salvador, Guatemala, Hungary, India, Nicaragua, Mexico, Slovakia, Tunisia, United Republic of Tanzania, Viet Nam, Zimbabwe).
- ❑ 404 in-plant demonstrations given in 15 countries.
- ❑ 1,020 technicians specialized in cleaner production trained.
- ❑ 24,000 representatives from various industrial sectors, government ministries, academic and financial institutions participated in awareness-raising seminars and workshops on application of cleaner production.

Global: Subcontracting and Partnership Exchange Programme

Funding: \$8,000,000 (Austria, Belgium, France, Italy, Switzerland, European Union, UNDP, World Bank, United Nations Office of Project Services — increasingly self-financing)

Duration: 1984 (ongoing)

Goal: To create a network of centres for the promotion of industrial subcontracting and supply chains between small- and medium-sized enterprises and large national or international companies.

Issue: Small- and medium-scale industrial producers often lack the appropriate knowledge and connections that would enable them to establish cooperation with bigger companies interested in outsourcing the production of parts, components or

processes. Setting up subcontracting and partnership exchanges (SPXs) can be beneficial both for large- and small-scale producers. The former reduce their costs by outsourcing production and acquiring tailor-made components, while the latter increase their capacities and productivity, improve quality, reduce marketing costs through direct sales to clients and create additional jobs.

Strategy: UNIDO created national and regional SPX networks and assisted them in adopting appropriate tools, including the UNIDOSS software, and methodologies to develop, manage and analyse technical information. Specialized training courses were organized on the promotion of subcontracting and partnership exchange, quality improvement, upgrading of technology and new management techniques.

Results

- ❑ 45 subcontracting and partnership exchanges operating without UNIDO intervention in 30 countries (Algeria, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Côte d'Ivoire, Cuba, Czech Republic, Ecuador, Egypt, France, Guatemala, Iraq, Jordan, Kenya, Lebanon, Madagascar, Mauritius, Mexico, Morocco, Paraguay, Peru, Poland, Slovakia, Tunisia, Turkey, Uruguay, Venezuela).
- ❑ 300 technical staff trained to work in the subcontracting promotion centres.
- ❑ 5,000 entrepreneurs participated in awareness-building seminars on subcontracting and outsourcing.
- ❑ 15,500 enterprises registered in the 48 SPX databases established in 30 countries.

Asia and the Pacific: Regional Network on Safe Pesticide Production and Information

Funding: \$15,400,000 (UNDP and national Governments)

Duration: 1993-1999

Goal: To promote safety in the production and use of pesticides to protect farmers, producers, consumers and the environment in Afghanistan, Bangladesh, China, India, Indonesia, Islamic Republic of Iran, Malaysia, Myanmar, Nepal, Pakistan, Philippines, Republic of Korea, Sri Lanka, Thailand and Viet Nam.

Issue: The role of pesticides in accelerating agricultural production came under scrutiny as the public learned more about the impact of unsafe production methods and persistent organic pollutants on communities and the environment. The pesticide sector in developing countries needed a multifaceted approach to solve its problems: introduction of clean technologies, revamping old plants, promoting the use of personal protective equipment, treating effluents, controlling pollution and establishing safety standards and guidelines as well as an ongoing promotion and formulation of user- and environment-friendly pesticides.

Strategy: The Regional Network on Safe Pesticide Production and Information for Asia and Pacific (RENAP) was established as a forum for industry, agriculture, health and labour interests in pesticides. Ten technical coordination units were set up in China, India, Indonesia, Malaysia, Pakistan, Philippines, Republic of Korea and Thailand. They organize workshops and provide training and services in specialized areas of pesticides

such as data collection and dissemination, pesticide formulation technology, integrated safety, eco-toxicology and industrial hygiene for all 15 RENPAP member countries.

Results

- ❑ 500 senior personnel from industry and government trained in scientific and managerial aspects of safer and cleaner pesticide production.
- ❑ 300,000 tonnes of hexachlorobenzene pesticides eliminated from use in India since 1996, representing 30 per cent of the country's total pesticide consumption.
- ❑ 30 per cent of chemical pesticides in India, Myanmar and Thailand substituted by a natural pesticide alternative derived from the neem tree.
- ❑ China's Huhan manufacturing company, now the second largest producer of bio-pesticides in the RENPAP region, is transferring technology to other countries, such as Thailand.
- ❑ Increase in number and quality of cleaner and user-friendly crop protection agents, including bio-botanical pesticides.

Argentina: Assistance to the Automotive Regime

Funding: \$2,000,000 (self-financed)

Duration: 1993 (ongoing)

Goal: To increase the competitiveness of Argentina's motor industry through a programme of industrial modernization and trade liberalization.

Issue: By the beginning of the 1990s, automotive production in Argentina had plummeted to a third of its 1973 all-time high. The country's former economic regime, based on trade protection, had brought the industry to the verge of collapse. A new approach to tackle the legal and administrative aspects of overhauling the automotive regime, which affects more than 500 firms, was needed.

Strategy: The centrepiece of the project was the development of an auditing scheme to monitor motor companies' adherence to Argentina's new automotive regime. In its role as honest broker, UNIDO selects and supervises the auditing firms that carry out the annual audits. The financial accounts and stock inventories of some 150 firms have been audited. Support personnel have been appointed in the Argentinean Secretariat of Industry to liaise between the Government and motor companies to monitor the application of the regime.

Results

- ❑ Five-fold increase in automotive production from 1993 to 1997.
- ❑ \$3 billion rise in automotive investments by 1997.
- ❑ 90 per cent of production updated.

- ❑ \$180 million in compensation paid by motor companies to Government for not fulfilling obligations under new automotive regime.

Brazil: Assistance to Modernize the Textile and Apparel Industry

Funding: \$5,500,000 (UNDP and self-financed trust fund by SENAI/CETIQT)

Duration: 1987 (ongoing)

Goal: To assist the Brazilian textile and apparel industry to remain competitive in the domestic and international market and reduce the negative environmental impact of the textile dyeing and printing subsector.

Issue: The opening up of the Brazilian economy in 1991 represented a major challenge for the country's textile and apparel industries. Previously protected by high import tariffs, they had to face strong competition from foreign textiles and garments. From 1990 to 1993, employment in the textile industry fell by 50 per cent. This dramatic drop was due to the closure of uncompetitive companies and to investments in modern, highly productive equipment. To utilize fully the opportunities brought by new technologies and equipment as well as to develop local expertise, advice from highly qualified international experts was required.

Strategy: The programme consisted of two phases. Until 1992, the Technology Centre for the Chemical and Textile Industry under the National Training Service for the Industry (SENAI/CETIQT) received technical assistance, implemented by UNIDO and funded by UNDP, with some cost-sharing contribution from the recipient. In 1992, SENAI/CETIQT opted for a self-financed trust fund, UNDP in Brazil having shifted its focus from industrial development. The programme has focused on strengthening national counterparts in a wide range of modern technologies, which assist the industry in remaining competitive while at the same time reducing pollution from textile dyeing and finishing. CAD/CAM technologies have been promoted to increase production flexibility, reduce delivery times and enhance design capabilities. In the apparel industry, the focus has been on application of CAD/CAM technologies, which reduce waste from cutting, improve the fit of apparel, prepare a fast and accurate pre-costing of the final product, reduce delivery time and permit buyers to make production and design changes even at the last possible moment. Additional services have been provided in quality systems by establishing and training a special section for ISO 9000 standards.

Companies receiving assistance from international experts and national counterparts at CETIQT pay for the services and keep the trust fund revolving. With the present phase of the project ending in July 1999, SENAI /CETIQT is requesting an extension of the programme by three years, at a value of approximately \$3 million, to assist in establishing textile and apparel programmes leading to an internationally recognized M.Sc. degree, establishment of a special department for development of modern, interactive and audio-visual teaching aids and strengthening of its environmental laboratory.

Results

- ❑ 50 specialized training courses organized for more than 1,000 participants.
- ❑ 40 management consultancy contracts carried out with local enterprises.
- ❑ 100 small- and medium-scale apparel manufacturers provided with marker-making services.
- ❑ 6 vertical textile mills brought to ISO 9000 standards and accredited.

- ❑ 2 international conferences on textiles and apparel convened, each with more than 1,000 participants.
- ❑ \$4 million worth of equipment donated to the SENAI/CETIQT school by local machine suppliers in recognition of service excellence.

Guinea: Promotion of Small and Medium Enterprises

Funding: \$3,000,000 (UNDP)

Duration: 1993-1998

Goal: To promote the creation and development of small- and medium-scale enterprises (SMEs) through the provision of financial and managerial support.

Issue: While numerous public, private and non-governmental organizations promote the development of small- and medium-scale enterprises and address problems related to limited access to financial, technical and human resources, there is much to be done to develop the sector. SMEs and the informal economic sector absorb more than three-quarters of the labour force in urban and rural areas. The lack of entrepreneurial spirit, knowledge of how to manage an enterprise and adequate credit lines impede the informal sector from entering the mainstream economy.

Strategy: The project focused on providing credit for starting up small- and medium-sized businesses as well as expanding existing ones. A revolving fund of \$1.7 million was established with UNDP financing and operated in cooperation with the Banque Internationale pour le Commerce et l'Industrie pour la Guinée. Business advisers from the Micro-project Units, in the Office of Promotion of Private Investment, analysed numerous business proposals for starting up or expanding small- and medium-scale enterprises around the country to evaluate the commitment of the entrepreneurs and the feasibility of their projects as well as to determine which would qualify for credits. Business advisers were trained in pre-investment analysis and how to support entrepreneurs through technical and financial services. A database was established covering projects of existing and prospective entrepreneurs in the country seeking investment.

Results

- ❑ 118 projects financed by the UNDP fund with total capital investment of \$2.6 million.
- ❑ 75 projects financed through the support of UNICEF, ILO and the European Union, using the mechanism devised in the UNDP/UNIDO project.
- ❑ 64 per cent loan recovery rate, with 80 per cent recovery rate in some zones.
- ❑ Efforts to increase loan recovery rate ongoing in the form of intensified monitoring.
- ❑ 1,450 jobs created in garment-making, metal-working, food processing, services and building materials.
- ❑ 30 per cent of beneficiaries are women.
- ❑ 40 enterprises set up by handicapped persons.
- ❑ Micro-project Units transformed into an autonomous institution (Independent Agency for Integrated Assistance to Enterprises), providing integrated financial and technical support to SMEs.

Hungary: Improving Frozen Food Quality

Funding: \$465,050 (United Kingdom)

Duration: 1991-1998

Goal: To upgrade technical standards in Hungary's food industry by improving product quality and introducing the practice of total quality management.

Issue: As a major foreign exchange earner, the Hungarian food industry had to improve its quality standards to meet requirements for exporting to the European Union.

Strategy: The project focused on the frozen food sector, which has 21 important plants. Szekesfehervar Frozen Food Plc., one of the largest frozen food producers, was chosen as a demonstration plant for introducing the model system. At the same time, British experts trained the staff of the Development and Quality Institute of the Frozen Food Industry to enable them to provide technical support to companies trying to meet European Union requirements.

Results

- ❑ 700 technicians from 221 companies trained in techniques to eliminate hazards in food manufacturing (Hazard Analysis and Critical Control Points).
- ❑ 71 companies introduced Hazard Analysis and Critical Control Points.
- ❑ Szekesfehervar Frozen Food Plc. and 12 other companies accredited to ISO 9002.
- ❑ 26 companies implemented total quality management.
- ❑ Manual published on good manufacturing practices for the food industry.

India: Integrated Investment and Technology Promotion Programme

Funding: \$1,340,000 (UNDP, IDF and self-financed)

Duration: 1994-1998

Goal: To increase the flow of private investment to small- and medium-sized companies.

Issue: Small- and medium-sized companies are handicapped in their development by having limited information about international markets and potential international partners interested in various forms of investment and cooperation.

Strategy: In association with the Indian Ministry of Industry, an integrated investment and technology promotion programme has been designed to increase foreign direct investment and other forms of technical and financial collaboration. UNIDO identified Indian companies with the potential to attract foreign partners and selected international investors. Following the selection process international investment forums (Intechmarts) were organized, seven of which have been held since 1994. Three were held in New Delhi, involving companies throughout India. One regional forum was held in the south for companies in Tamil Nadu, Kerala, Andhra Pradesh, Karnataka and Pondicherry. One Intechmart focused on the state of Madhya Pradesh. Two forums, held in Calcutta, were dedicated to the leather industry.

Results

- ❑ 800 industrial investment proposals discussed with 700 international companies from 50 industrialized and developing countries.
- ❑ 25 cooperation/investment agreements finalized.
- ❑ \$27 million invested by Concept Group International Ltd. (United Kingdom) in building a tractor manufacture plant in Hoshiapur, Punjab, in cooperation with International Tractors Ltd., New Delhi.
- ❑ \$2.2 million invested by Kurt O. John Shoe Components (Germany) for establishing a subsidiary in Noida producing soles and heels.
- ❑ \$13 million invested by Bertuzzi (Italy) in setting up a multi-fruit processing plant in Hyderabad, in cooperation with Leafin Export Ltd., Hyderabad.
- ❑ \$1 million invested by MAP (France) for the manufacture of coconut-fibre mats in cooperation with DC Mills, Kerala.
- ❑ 371 letters of intent signed, of which 256 now in advanced stage of business negotiation.

Kenya: Establishment of the Training and Production Centre for the Shoe Industry

Funding: \$900,000 (IDDA and IDF)

Duration: 1993 (ongoing)

Goal: To improve quality and design of locally-made footwear to enhance international competitiveness.

Issue: The abundance of hides and skins coupled with the tradition of producing footwear for local consumers had failed to make Kenya into a shoe exporter. Footwear producers did not adopt new technologies and adjust to rapidly changing fashion trends. Although Kenyan manufacturers exhibited their products at international fairs, they received no export orders because their designs could not compete internationally. The lack of proper design capabilities, managerial skills and awareness of appropriate materials and modern marketing techniques required external expert assistance.

Strategy: The Training and Production Centre for the Shoe Industry at Thika, established at the request of the Kenya Footwear Manufacturers Association, organizes specialized training courses for manufacturers and provides support services to small- and medium-sized producers. Training courses include shoe design and pattern cutting, shoe upper cutting and stitching, basic technologies and leather sole making as well as business training. In addition, the Centre offers pattern design and cutting, die making, cutting of shoes and leather goods, stitching, upper shoe making and other services to producers who cannot afford to buy costly technology required to carry out all these activities on an individual basis. International experts assisted in developing a new model of sandals for export. They adapted traditional designs to international tastes, substituted tire soles for leather ones and improved the quality of cutting and stitching. Specialized marketing assistance, including participation in international fairs, is also organized.

Results

- ❑ Design and production of the unique brand of “Out of Africa Look” sandals.
- ❑ 400 shoe manufacturers received specialized training.
- ❑ 170 jobs created for rural women, who produce decorations and trimmings for sandals.
- ❑ Rural non-governmental organizations actively involved in organizing the manufacturing of decorations.
- ❑ \$128,000 worth of orders for African sandals placed by Italian, Japanese, South African, Spanish and Swiss companies.
- ❑ 30 per cent increase in leather production by local tanneries.
- ❑ Increased purchases of good quality leather by footwear manufacturers for manufacturing sandals designed for export.
- ❑ Additional UNDP funds (\$60,000) provided for training of women, the disabled and street children.

Nepal: Establishment of Demonstration Tannery Effluent Treatment Facilities

Funding: \$617,100 (Austria)

Duration: 1995 (ongoing)

Goal: To minimize environmental degradation caused by the tanning industry.

Issue: Nepal has 16 tanneries processing goat, buffalo and cow skins. They are located in Kathmandu, Hetauda, Bhairahawa, Birgunj and Biratnager. Most of the production is exported: 70 per cent in the form of wet-blue leather, 20 per cent in the form of crust leather and 10 per cent as finished leather. Since 1983, tanneries have not been eligible for special government incentives and are subject to market forces. Due to the importance of the leather sector for the economy, the Government requested UNIDO assistance in pollution control.

Strategy: Birgunj, where ten tanneries are located, was the site chosen for installing an industrial-sized demonstration waste water treatment plant, chrome recovery unit and laboratory.

Results

- ❑ First tannery effluent treatment plant in Nepal constructed on the site of Narayani Skin Tanning Industry in Birgunj now fully operational.
- ❑ Common chrome recovery unit established on site regularly used by Narayani and Everest tanneries, reducing amount of chrome discharged and offsetting cost through savings in amount of chrome needed.
- ❑ Upgraded regional laboratory of National Bureau of Standardization and Metrology analyses samples of exhaust chrome liquor and of liquor from the common chrome recovery unit.

- ❑ Management and technical staff of 10 tanneries received on-the-spot advice in product development and optimization of processes.
- ❑ 15 persons trained to date.

Saudi Arabia: Creation of the National Measurement and Calibration Laboratory

Funding: \$1,333,278 (UNDP and Saudi Arabia)

Duration: 1993-1998

Goal: To establish a national measurement and calibration laboratory at the National Standards Institution to upgrade metrology and calibration capabilities in the region to international level.

Issue: The National Standards Institution requested the creation of a specialized laboratory capable of providing services in calibration of measuring facilities.

Strategy: The project focused on the installation of requisite laboratory equipment and on training courses for operation of the new equipment and the provision of scientific services to industry in metrology and calibration. A manual on quality standards was also elaborated.

Results

- ❑ National Metrology and Calibration Laboratory established, now provides services in metrology and calibration at national and regional levels that meet international requirements.
- ❑ 24 technicians trained in various fields of metrology and calibration.

United Republic of Tanzania: Integrated Training Programme for Women Entrepreneurship Development in Food Processing

Funding: \$1,195,000 (Austria)

Duration: 1992 (ongoing)

Goal: To improve women's entrepreneurial skills in food processing through an integrated training programme combining basic and advanced business skills with technological improvements, enabling them to manage their own businesses.

Issue: Tanzanian women have a long tradition in food processing either in households or in micro- and small-scale enterprises. Although food producers, they lack both essential technological and managerial skills to expand and improve their businesses in the free market environment. Traditional methods of food preservation and processing do not allow for quantitative and qualitative improvements. The survey conducted prior to project initiation identified a number of problems of small-scale enterprises in food processing: local food was not usually processed; lack of quality standards impeded access to markets; difficulties existed in obtaining packaging materials and labels; supplies of raw materials were irregular; and working capital was lacking.

Strategy: Seven provinces were chosen to participate in training programmes. The Small Industries Development Organization, with its network of 20 regional offices, was selected as a local counterpart. UNIDO's training manual was adapted to local circumstances and translated. The sessions — training of trainers from each region, as well as training of women at the grass roots level — included courses on how to manage every aspect of a small business and on the technological and hygienic aspects of production. Practical technological training focused on the production of a wide range of products. Upon completion of the course, women receive a certificate and are regularly monitored and advised on quality improvement and expansion of production.

Results

- ❑ From the first group of 735 trained women (240 in two-month and 495 in one-week courses), 75 per cent now manage to earn their regular income from food-processing activities.
- ❑ 50 per cent of trained women able to meet basic family needs (food, clothing, medical care, school fees).
- ❑ \$400 to \$2,000 range of assets in entrepreneurs' production and equipment facilities.
- ❑ 90 entrepreneurs received hands-on advice and assistance.
- ❑ 37 trainers trained to assist women entrepreneurs and monitor their work.
- ❑ Tanzania Food Processors Association established as a business network to provide long-term institutional support in promotional training programmes.
- ❑ Approach applied in similar project in Central America.

Box 13. Women in industry

With its service modules on entrepreneurship development and policy for women's entrepreneurship development, UNIDO is actively supporting the development of gender-sensitive policies, thereby yielding better opportunities for women in a sound and efficient business environment. This continues an established tradition of UNIDO activities addressing gender issues. Results achieved contribute directly to poverty alleviation, employment generation and economic empowerment.

- ❑ In Mali, Morocco, Nigeria, Senegal, United Republic of Tanzania and Viet Nam, UNIDO improved women's entrepreneurial skills through an integrated training programme geared towards enabling women to run their businesses efficiently in free market conditions.
- ❑ As a result of UNIDO training, 129 Vietnamese women entrepreneurs improved hygienic conditions in production, increased output, modernized production processes, applied new accounting and price calculation techniques, thereby increasing income and investments.
- ❑ A project in the United Republic of Tanzania improved women's entrepreneurial skills in food processing through an integrated training programme combining basic and advanced business skills with technological improvements, enabling them to manage their own businesses. Of the first group of 290 trained women, 75 per cent now earn their own income from food-processing activities.



Programmatic focus and special highlights

Part one of this report described the evolution of the transformation process that resulted in the development of pilot cases to test the new working methods, the scope of the new integrated approach, and the new service modules. In applying the service modules to a selected number of pilot countries in all regions, the goal was to establish a new methodology for developing demand-driven integrated programmes (packages of UNIDO services, tailored to meet specific needs or solve specific problems identified by clients in both the public and private sectors). In this new approach, the focus is on addressing industrial development problems with practical, results-oriented solutions, derived from active dialogue with and full involvement of counterparts in target countries to ensure effective local ownership of the programmes developed.

A. Guiding principles

The approach, initially being tested in seven sub-Saharan and African Arab countries, was developed on the basis of the following key guiding principles:

- ❑ *Programmes must be demand-driven.* They must be based on actual needs identified in a country or region, as requested by Member States and involving direct dialogue with local stakeholders in government, the private sector and civil society.
- ❑ *Local ownership and sustainability.* Beneficiaries and other stakeholders must play an active role in programme development, funds mobilization, implementation and monitoring.
- ❑ *Multidisciplinary solutions.* Industrial development programmes must be placed within the context of other ongoing economic development activities of the United Nations system or host country bilateral agencies to establish synergism and build on complementarities. Also, cross-divisional multidisciplinary teams at Headquarters must be involved in all phases of programme development and implementation.
- ❑ *Impact on competitiveness, employment and environment.* Programmes should have a demonstrable impact on sustainable economic development through economic development, employment creation and reducing environmental damage.

These principles are embodied in the Business Plan on the Future Role and Functions of UNIDO: “UNIDO will provide its support primarily in comprehensive packages of integrated services and will further strengthen its existing capacity in this regard through interdisciplinary team-building. ... Preserving the universal character of the Organization, UNIDO will give special emphasis to least developed countries, in particular in Africa. Throughout its programme, UNIDO will promote international industrial cooperation: between developed and developing countries, among developing countries and between developing countries and countries with economies in transition.”

B. Methodology

Prioritizing needs. Seven countries (Algeria, Burkina Faso, Guinea, Kenya, Rwanda, Uganda, United Republic of Tanzania), including five LDCs, were identified as pilot cases for testing the new programming approach. For each, an initial review was undertaken through a programming mission to determine industrial development priorities. Sources included projects and programmes, UNIDO-sponsored reports and studies, country requests and development plans, and the new programming instruments introduced as part of the reforms of the Secretary-General (United Nations Development Assistance Framework, the Common Country Assessment and the Common Country Framework). Special attention was paid to priorities identified through more recent consultations between the Director-General and key public and private sector leaders.

Establishing country teams. A programme formulation team was established consisting of UNIDO Professional staff based on the relevance of their expertise and experience to the needs and priorities identified in the country. The team reviewed the available information, determined specific services that could address those needs and established a programme framework. A programme formulation mission assessed further needs and consulted with stakeholders, particularly private sector actors and multi- and bilateral agencies in the country.

Establishing stakeholder ownership. During programme formulation a deliberate effort was made to undertake extensive discussions (individually and collectively) with stakeholders. At the end of the mission, the UNIDO team also discussed with stakeholders the initial findings and scenarios for the potential programme. The draft programme document was then prepared, forwarded to stakeholders within six weeks and finalized upon receipt of their feedback.

In addition to the seven pilot cases, integrated packages of services are under formulation for a further nine countries in five regions. Following government endorsement, implementation has commenced in six pilot cases using UNIDO funds, with the remainder to be submitted for the consideration of donors.

C. Support to least developed countries

After a slight upturn in 1997, the total delivery of UNIDO services to all LDCs amounted to \$7.2 million in 1998, compared to \$12 million in 1997. This 40 per cent decrease is due to the overall decline of new programme and project approvals.

To remedy this situation, UNIDO re-examined priority measures for programmes and projects in LDCs. In the context of the transformation, the Director-General ensured that the resources of the Organization will be fully devoted to the delivery of technical

Box 14. Integrated packages of UNIDO services¹**AFRICA**

Burkina Faso Enhanced competitiveness of agro-based industries for employment generation

Guinea Competitiveness of the industrial private sector in "Guinea Vision 2010"

Kenya Institutional capacity-building programme for private sector institutions

Rwanda Integrated programme for capacity-building to enhance industrial recovery, competitiveness and sustainability

Uganda Enhanced competitiveness and sustainability of industrial development, with particular emphasis on agro-industries and micro and small-scale enterprises

United Republic of Tanzania Integrated programme for capacity-building to enhance industrial competitiveness and sustainability

ARAB STATES

Algeria Integrated programme for improvement of competitiveness and support for industrial restructuring (1999-2000)

Morocco Integrated programme of support for improvement of competitiveness in development of industrial sector

Sudan Integrated technical assistance programme (1999-2001)

ASIA AND THE PACIFIC

India Provision of technical assistance in support of a food-processing park in the State of Kerala, with special focus on investment and technology promotion

Iran (Islamic Republic of) Efficient energy utilization and greenhouse gas emissions reduction in major industrial energy user sectors

Lao People's Democratic Republic Building capacity in industrial development for employment generation

Thailand Integrated programme in support of the Government's industrial restructuring programme

EUROPE AND NIS

Tajikistan Integrated programme addressing issues of five UNIDO service modules (industrial policy formulation and implementation, continuous improvement and quality management, entrepreneurship development, investment and technology promotion, and energy efficiency)

LATIN AMERICA AND THE CARIBBEAN

Cuba Integrated programme to assist action for enhancing employment in the manufacturing sector

Guatemala Support to government institutions, frameworks and mechanisms

¹Includes seven pilot cases and other integrated programmes under development as of 31 December 1998.

assistance, in particular to LDCs (DGAI No. 1). In so doing, and in line with the mandate given to UNIDO by the Business Plan to focus on assisting LDCs, particularly in Africa, the following initiatives were taken in 1998:

- While testing the new service modules in Africa, the decision was made to start with African LDCs. As a first step in that direction the Director-General's visits to five African countries in June and July included three LDCs: Burkina Faso, Uganda and the United Republic of Tanzania. The purpose was to discuss country priorities and to offer UNIDO's integrated response in package form within the context of its service modules. Similar visits by other senior officials took place to Guinea and Rwanda.
- As a follow-up, UNIDO fielded programme formulation teams of technical staff to those countries, as well as Sudan, to discuss details of the envisaged integrated programmes.
- The resulting seven initial integrated programmes included five for LDCs, with total external resources required amounting to \$21.9 million (of \$35.7 million for all seven programmes).
- To start implementation of the most urgent components, UNIDO allocated for five LDCs a total of \$2.9 million from IDDA and other funds available under IDÉ, with the remainder to be mobilized through voluntary contributions. Details are explained in table 1.

Table 1. Funding of initial integrated programmes for LDCs
(in US dollars)

Country	Formulation mission cost	Integrated programme		
		Total required funds	UNIDO allocation	Estimated delivery in 1999 ^a
Burkina Faso	25,901	4,086,210	1,070,000	600,000
Guinea	10,800	4,795,500	500,000	1,000,000
Rwanda	22,000	5,314,000	300,000	2,261,300
Sudan	17,000		To be formulated in 1999	
Uganda	21,900	3,902,500	1,000,000	1,907,400
United Republic of Tanzania	31,200	3,824,000	1,000,000	2,279,500
Total	128,801	21,922,210	3,870,000	8,048,200

^aSubject to availability of donor resources.

Implementation of the Burkina Faso programme was under way at the close of 1998, with those for Guinea, Rwanda, Uganda and the United Republic of Tanzania to commence in January 1999. Subject to mobilization of the required funds, delivery under the integrated programmes is estimated at \$8 million in 1999 for the five African LDCs alone. This would be higher than the level reached in 1998 for all 48 LDCs.

In 1999, integrated programmes are scheduled for a further seven LDCs in Africa and Asia: Burundi, Eritrea, Ethiopia, Lao People's Democratic Republic, Lesotho, Mozambique and Sudan. Thus, subject to the mobilization of donor resources, there is significant scope for increased delivery to LDCs.

With the formulation of integrated programmes, UNIDO has responded not only to the LDC requests for demand-driven integrated services, but also to the calls of donor

countries for producing high quality projects and programmes for LDCs, particularly in Africa. UNIDO therefore expects to receive increased voluntary contributions for financing the programmes so that the decline in delivery to LDCs can be reversed.

As a direct response to the recommendations of the Fourth Ministerial Symposium on the Industrialization of the Least Developed Countries, UNIDO is establishing or re-activating two more field offices in African LDCs (Democratic Republic of the Congo and Madagascar). Of 12 UNIDO offices in Africa, six are located in LDCs. In the context of further decentralization and a greater role for UNIDO Representatives, UNIDO offices will receive seed money to enable them to promptly initiate response to requests for technical assistance through local consultancy services.

The integrated programme for Rwanda addresses the recommendation of the Ministerial Symposium calling for “special attention to the LDCs that have been seriously affected by natural calamities and conflicts.”

In further response to the recommendations of the Ministerial Symposium and the request of the General Conference to coordinate efforts with other international and regional organizations, in particular the World Trade Organization, UNIDO started active cooperation with WTO on the joint implementation of an integrated framework to support LDCs in trade-related activities. UNIDO trade-related activities in selected LDCs are now placed on the WTO website under “Integrated Framework”. The next step will be to participate in country round table meetings together with WTO and other core agencies and draft multi-year programmes of technical cooperation.

IV

Strengthening industrial capacities

The objective of the Investment Promotion and Institutional Capacity-building Division is to support developing countries and economies in transition in strengthening their capacities for long-term sustained industrial growth and development, thus contributing to alleviating poverty and creating industrial employment through establishing viable industrial structures and competitive productive capacities. In pursuit of this objective, the Division is responsible for the delivery of nine service modules:

- ❑ Industrial policy formulation and implementation
- ❑ Investment and technology promotion
- ❑ Statistics and information
- ❑ Private sector development
- ❑ Metrology, standardization, certification and accreditation
- ❑ Continuous improvement and quality management
- ❑ SME policy framework
- ❑ Policies for women's entrepreneurship development
- ❑ Entrepreneurship development

Organizational restructuring in early 1998 regrouped the main activities of a number of former branches and divisions, consolidating them into the five branches of the Investment Promotion and Institutional Capacity-building Division. This brought about new challenges and significant management improvements and introduced greater intra-divisional cooperation along with cooperation with other organizations. The result was the adoption of an integrated approach cutting across branches, and development and execution of divisional activities as a whole, as opposed to a piecemeal project approach. These new approaches were fully built into the modules of integrated packages of services.

A. Investment and Technology Promotion (ITP)

Fundamental changes and new working approaches were introduced in formulating the investment and technology promotion service module and a corresponding programme. The various elements of the service module were articulated in a coherent framework, with an underlying concern for developing tools and methodologies to bring value

added to the programme elements, facilitate the implementation of services, and render capacity-building activities more effective.

While former investment and technology promotion activities were implemented around promotional events such as investment fora, Techmarts and Intechmarts, the new strategic orientation primarily focused on capacity-building needs of targeted countries and institutions. In this connection, the programme was re-directed along the following lines:

- ❑ Investment and technology were considered as two complementary dimensions of an integrated reality geared to stimulating innovation and improving competitiveness at the enterprise and national levels on a sustainable basis;
- ❑ The scope of international industrial partnerships promotion was broadened to encompass not only traditional joint ventures, licensing agreements and subcontracting exchanges, but also new and evolving concepts such as strategic alliances and public-private partnerships for infrastructure projects.

Special attention was given to developing interlinkages with other UNIDO programmes, particularly to quality and cleaner production technologies. The need for greater cooperation with international partners within and outside the United Nations system was also taken into account, as discussed in part one of this report.

Significant initiatives

An important initiative was the consolidation of the Investment Promotion Services (IPS) and field offices, international technology centres and sub-networks, government institutions related to investment and technology, subcontracting exchanges, investment and technology focal points, including at provincial and municipal levels, industrial associations, private financing of infrastructure offices, into an International Industrial Partnership Network. This network functioned as a mechanism to boost the outreach of the programme, inter-relations between investment and technology, and private sector linkages. A restructuring plan for IPS offices was developed to integrate technology promotion functions into their traditional investment promotion activities.

Activities were carried out relating to the promotion of private investment through public-private partnerships in industrial infrastructure. In China, for example, the programme on the legal and institutional framework for concession projects supported the finalization of bidding procedures for two pilot projects, representing a total of about \$800 million in foreign investment, thereby helping to create a basis for industrial growth in less developed provinces. Also, an international partnership initiative for the

Box 15. Industrial Information and Investment Unit, Sudan

With UNIDO assistance, the Industrial Information and Investment Unit was established in the Ministry of Industry, Sudan, as a government window to reach out to international partners and assist the domestic private sector in the implementation of business and investment activities. Assistance included improvement of planning logistics, managerial and infrastructure facilities, targeted to provide basic information for planners and decision-makers to formulate strategies, plans and programmes for both private and public sector benefit.

This project initiated the fellowship programme on the UNIDO Method for Industrial Development. Four Sudanese trainees were awarded the first UNIDO Fellowship Programme Certificate.

promotion of private investment in small- and medium-sized infrastructure projects was initiated by UNIDO in cooperation with the Swiss Federal Office for Foreign Economic Affairs and UNCTAD.

B. Industrial Policies and Research (IPR)

Established with a view to reorienting industrial policy-related and research activities, the Branch provides substantive inputs to industrial policy formulation, implementation and monitoring, serving as a policy framework for technical cooperation activities. Industrial policy advice was the principal focus of operational activities in 1998. The successful formulation of a mid-term industrial strategy for Viet Nam was a major initiative, serving as a substantive input to a longer-term policy framework for the country (box 16). A proposal for a new industrial policy was prepared for Ecuador with a clear identification of priority areas for further development assistance. Policy advice was provided to Central and Eastern Europe with the aim of accelerating the speed of transition. Policy advice was also given to Côte d'Ivoire on a draft regime for the establishment of export processing zones. Analyses of Thailand's success in cassava processing was undertaken with a view to unveiling avenues of replicating best-practice policies in African countries.

Significant initiatives

UNIDO's new initiative to facilitate cooperation among stakeholders involved in industrial policy-making, the private sector, knowledge-oriented institutions and academia was strengthened by a focus on interactive policy formulation. A regional workshop in Namibia with private sector involvement finalized a draft industrial strategy for the SADC region, and another in the United Republic of Tanzania for decision-makers in the public and private sectors on the impact on industry of the Uruguay Round agreements and for the preparation of the next round of negotiations on WTO rules. An assessment of the impact of stabilization programmes on industrialization in the OIC countries was presented at a Casablanca seminar, while analyses of the impact of the Asian financial crisis on African countries facilitated cross-fertilization of ideas at an Abidjan symposium.

A publication on *New Trends and Challenges in Industrial Policy* analyzed new economic forces and their profound implications for industrial policy-making. A report prepared for the United Nations General Assembly spelled out best practices in industrial strategies, and a report comparing industrial development policies in developing countries and economies in transition is being published as a UNIDO sales publication. New cooperation programmes were initiated with other organizations, such as the African Institute for Economic Development and Planning in organizing and conducting a training workshop on interactive policy formulation in Dakar, and with UNCTAD in the assessment of progress achieved in horizontal industrial and technical cooperation.

Box 16. Viet Nam medium-term industrial strategy

The formulation of a medium-term industrial strategy in Viet Nam, initiated in 1995, took a new turn in 1998. Five industries were selected by the Government for a detailed review of their strengths and weaknesses in a business environment increasingly exposed to foreign competition. Apart from the intrinsic merit of the sector recommendations they yielded, the studies offered the benefit of a concrete, action-oriented training process on concepts and methodologies underpinning manufacturing competitiveness in an open economy. UNIDO was further requested by the Government to extend the analysis to the longer-term framework of Viet Nam's Socio-Economic Development to the 2010 Horizon.

C. Statistics and Information Networks (SIN)

Recognizing the steadily increasing role of information and knowledge in globalization and the industrialization process, this new Branch was established to focus on issues of information, knowledge products derived therefrom, and the conduits through which both information and knowledge are rendered accessible. The statistics and information networks service module provided a new strategic reorientation of activities.

In response to the Business Plan emphasis on global forum functions, UNIDO in 1998 assumed full responsibility for the collection and verification of industrial statistics for all countries that are not members of OECD. The fourth round of annual collection and harmonization of data from 172 developing countries was carried out. In close cooperation with OECD, UNIDO also continued to disseminate industrial statistics of global coverage.

Significant initiatives

During 1998, information products were developed to client needs. Industrial statistics databases were sold to public and private disseminators and final users as well as to international brokers, such as the World Bank, WTO and OECD. The 1998 edition of *The International Yearbook of Industrial Statistics* was published and the development of a system of industrial development indicators was continued. UNIDO was represented at international meetings on coordination and the establishment of statistical standards and norms; the International Conference on Information Management as Support to SMEs; and at a workshop to develop a framework for national information management strategies for SMEs.

The UNIDO web site (www.unido.org) was re-engineered by integrating the data of its public web site with the internal network. Now dynamically linked with a central database for optimal integration with the service modules and global forum activities, the site provides an efficient tool for retrieving information on UNIDO and its activities. New integrated programmes, such as the National Industrial Statistics Programme, were developed with the main objective of building national capacities in the production and use of national industrial statistics, especially to meet the needs of SMEs through networking and the efficient use of modern information and communication technologies. In Peru, for example, an Integrated Industrial and Technological information Service was established with emphasis on meeting SME information needs. This service is now running fully on a commercial basis. A regional seminar was held in Lusaka on information networking and data collection using UNIDO's new Internet-based Information Resource Management System (IRMS^{PLUS}).

D. Private Sector Development (PSD)

The UNIDO transformation process placed greater emphasis on increased cooperation with the private sector, and the creation of this new Branch aimed at developing and implementing technical cooperation programmes to strengthen private sector development—mainly small and medium enterprises—as well as to assume a coordination role for the private sector relations of UNIDO as a whole. Besides providing core services related to SME and entrepreneurship development, the Branch acts as a focal point for networking arrangements with private sector institutions and representative bodies. The Branch also has the primary responsibility for the UNIDO service modules relating to

SME policy framework, policy for women’s entrepreneurship development, and entrepreneurship development.

In the light of Business Plan priorities, 1998 saw a streamlining of the PSD project portfolio. In addition, a significant contribution was made to the development of new integrated programmes in response to overall programmatic transformation. At the country level, activities focused on developing a strong SME base as the main pillar of dynamic and resilient economies. While emphasis on SMEs was a core concern for UNIDO at large, the Branch concentrated in particular on creating an enabling policy framework and strengthening institutional capacities, including in the private sector, to render effective advisory and networking services to SMEs. Several core services were carefully selected to ensure support towards a conducive environment and specific mechanisms for enterprises to start, grow and compete.

With about 50 per cent of new approvals, a high share of Branch services centered on Africa, the region most in need of building up entrepreneurial capacities required to survive and prosper in an increasingly competitive global environment. In addition, and across all developing regions, a conscious gender perspective was nurtured to address the particular needs and constraints of women, in overall policy terms and through specific skill upgrading programmes for women entrepreneurs.

Significant initiatives

The Branch was assigned the lead role for implementing the first case of the UNIDO partnership programme launched by the Director-General. Within an innovative approach to bring together private business, industry representative organizations, and leading research institutions, a technical cooperation programme was initiated in support of the SME automotive sector in India. Jointly with OECD, UNIDO initiated a Forum on Entrepreneurship and Enterprise Development aimed at stimulating exchange of experience among SME policy makers in Europe and NIS. UNIDO also participated substantially in the work of the Committee of Donor Agencies for Small Enterprise Development, where effective methodologies and best practices of support to SMEs are developed.

To increase the competitiveness of Kenyan enterprises, UNIDO launched a special initiative to help in building capacity in the three major Kenyan private sector institutions to provide complementary business and technical consultancy services, and to organize joint business support activities. The three-year programme, in the order of \$1.8 million, will increase access of Kenyan enterprises to quality management and cleaner production and will help attract new investment. This will improve the general business environment and enhance public-private sector dialogue. The programme features an innovative cost-sharing arrangement with participating institutions.

E. Quality, Standardization and Metrology (QSM)

Several new activities were launched by this new Branch, which also maintained ongoing projects delegated to it and successfully closed other projects. In particular, critical inputs were provided in the design of the integrated service modules. Two of these (continuous improvement and quality management; and metrology, standardization, certification and accreditation) are under direct Branch responsibility.

QSM inputs into the integrated programmes were designed to strengthen the “enabling conditions” for competitiveness—through the building of capacities in institutions that

support the private sector, such as quality, standardization and accreditation bodies, restructuring agencies, technical and training centres and laboratories. These institutions, in turn, offered services to assist enterprises in improving their competitiveness through the continual improvement of their product quality, cost performance, and ability to satisfy clients. Assistance was also provided for the radical restructuring of plants through a major overhaul of strategy, equipment, and plant layout.

Significant initiatives

Participation in missions for integrated programmes provided the tools and methodologies needed to assist in improved efficiency and competitiveness through industrial restructuring and upgrading. In this regard, work was initiated for issuing publications in quality, standardization and metrology. An analysis of standards and standardization and their impact upon industry in developing countries was initiated and a QSM database linked to other players was intensified.

In Sri Lanka a project was launched with the Chamber of Industries as the counterpart to transfer UNIDO's methodology on industrial project preparation, evaluation and application of the software Business Environment Strategic Toolkit (BEST), to develop national management consulting capability with specific emphasis on enterprise restructuring, and to improve the use of computer software for operations management. In Albania and Romania, local experts were trained on restructuring methodologies, management upgrading and conducting pilot restructuring in newly privatized SMEs as well as total quality management (TQM) systems. Bahraini authorities and industrial managers were assisted in the implementation of quality systems conforming to ISO 9000 international standards and the introduction of the principles and methodologies of TQM, through upgrading of skills in public and private enterprises. By the end of 1998, four enterprises were already certified to ISO 9000 by an internationally accredited certification body, with the remaining firms in the project undergoing audits for certification. A similar initiative was carried out in the ASEAN countries.

UNIDO wishes to help developing countries and economies in transition achieve recognition of their accreditation schemes for quality systems certification bodies. In cooperation with the International Accreditation Forum (IAF) and ISO, a new project aims to give accreditation bodies an opportunity to sign the IAF multilateral agreement. This agreement serves to establish international confidence in the ability of accreditation bodies in developing countries to assess the performance of certifiers in ISO 9000. The means to achieve this end is the Pre-Peer Evaluation Process (PPEP). A small group of assessors invited to a UNIDO workshop in July developed procedures for conducting PPEP. In a second stage, initiated in 1998 for two countries, these assessors will implement PPEP in a selected group of developing countries and transition economies.

Box 17. Quality principles in food processing, sub-Saharan Africa

Export markets are the target of a project on the application of quality principles to the food-processing sector in Ethiopia, Kenya, Malawi, Uganda, United Republic of Tanzania, Zambia and Zimbabwe. The programme applies a systems-wide approach to the simultaneous improvement of production processes and food quality in four major subsectors of food processing: beef, poultry, dairy and fish. Institutional capacity-building promotes process improvement and food quality through training in quality management, ISO 9000 and hazard analysis and critical control points (HAACP). Now demanded by the European Union, the United States and Japan for imported seafood and fish, HAACP is an important tool for rapidly improving food safety.

V

Cleaner and sustainable industrial development

The Sectoral Support and Environmental Sustainability Division provides the overall framework for all UNIDO activities aimed at promoting environmentally sustainable industrial development. Changes introduced to the Division within the framework of organizational restructuring delineated more clearly its core functions and facilitated response to the growing importance of industrial energy efficiency and the Kyoto Protocol, for which two new branches were established. The Division now has five branches and is responsible for the delivery of eight service modules. These modules, listed below, can be grouped under three main sections according to the development area or function supported.

- ❑ Environmental policy framework
- ❑ Climate Convention and Kyoto Protocol
- ❑ Energy efficiency
- ❑ Rural energy development
- ❑ Cleaner production
- ❑ Pollution control and waste management
- ❑ Montreal Protocol
- ❑ Upgrading agro-industries and related technical skills

Close collaboration with UNEP featured activities both in support of the global forum function and in cleaner and sustainable industrial development. A new memorandum of understanding, signed in Buenos Aires in November 1998, while stressing the need for complementarity within the United Nations system, reiterates the importance for development to rest on the three pillars of sustained economic growth, job creation and environmental protection.

A. Programmes in support of the global forum function

Further to the Earth Summit held in 1997, which adopted the programme of work of the United Nations Commission on Sustainable Development (CSD) for 1998-2002, UNIDO continued to cooperate with the Department for Economic and Social Affairs/ Division for Sustainable Development, through the UNIDO office in New York.

For the first time since its establishment after the Rio Summit, CSD took up industry as its main theme at its sixth session in 1998 (CSD-6). For that session, held in April, UNIDO acted as lead agency for the section on industry and economic development and contributed to the sections on industry and social development as well as to the one on industry and environmental management. Papers were also contributed on the sectoral theme of the session (strategic approaches to freshwater management) and the cross-sectoral theme (transfer of technology). In their capacity as inter-agency Task Managers for Chapter XIII (Science and Technology) of the Programme of Action for the Sustainable Development of Small Island Developing States (Barbados 1994), a joint UNIDO/UNESCO paper on science and technology in small island developing states was prepared for CSD-6.

In addition, UNIDO co-sponsored the industry and technology transfer exhibits and presentations at CSD-6, including the participation of a number of entrepreneurs from small and medium enterprises in developing countries. Finally, UNIDO participated in the February and September meetings of the Inter-Agency Committee on Sustainable Development.

During the year UNIDO participated actively in the climate convention “process”. In particular, the Organization’s high profile at the fourth session of the Conference of the Parties to the Convention (COP4) in Buenos Aires (2-13 November) secured recognition for UNIDO as a key United Nations player in future efforts to reduce greenhouse gas emissions. In cooperation with the United Nations Department for Economic and Social Affairs (DESA), UNDP, UNCTAD and UNEP, UNIDO was invited to provide inputs to the intergovernmental climate process focusing on the mechanisms of the Kyoto Protocol and on the development and transfer of technologies.

In the run-up to COP4, UNIDO convened an expert group meeting on the clean development mechanism (CDM) with 35 participants from industry, government, United Nations agencies and non-governmental organizations.¹ The meeting addressed key issues including impact of the CDM on sustainable industrial development, project baselines and institutions and governance, capacity-building and the role of the private sector. Of the several recommendations generated, the need to focus attention on capacity-building for Africa loomed large in view of the potential risk of being bypassed by the CDM in favour of larger developing countries with high industrial emissions offering more attractive opportunities for foreign investment.

At COP4, UNIDO exhibited its work in industrial energy efficiency and renewable energy, as well as its software for use in computing emission reductions flowing from the introduction of energy efficient industrial technologies. At an evening event, UNIDO-sponsored participants representing the industrial sectors in Colombia, India and Nigeria, as well as staff members, presented to conference delegates their views and opinions on the CDM and the opportunities it might offer to developing countries. An intervention was made by the Director-General during the high-level segment of the COP informing delegates of UNIDO’s commitment to assist the parties with tasks related to capacity-building and technology transfer, particularly implementation of the Buenos Aires Plan of Action—the main output of the COP.

¹The CDM (article 12 of the Kyoto Protocol) allows industrialized countries to invest in emissions reduction projects and to “credit” the resulting certified emissions reductions (CERs) against their quantified emission reduction and limitation commitments under the Protocol. CDM is thus a mechanism to help channel private investment to climate-friendly projects in developing countries. It is intended to serve a dual purpose of promoting sustainable development and helping the parties with quantitative emissions reduction targets to achieve greater cost effectiveness for the reduction effort by meeting part of their commitments through the transfer of the CERs resulting from projects in developing countries.

In December, UNIDO organized a workshop on efficient power generation in the countries of the CEE/CIS region which included a segment on Joint Implementation (JI) (article 6 of the Kyoto Protocol). Like the CDM, this mechanism enables developed countries to gain credits for project-based emissions reductions, but in the case of JI, projects will be hosted by countries with economies in transition. Opportunities for improving district heating and introducing industrial co-generation were explored by participants. It was also recommended that UNIDO should seek to identify and develop projects covering power plant rehabilitation, efficient combustion systems and renewable energy which could qualify as JI projects. The recommendations of the workshop may lead to formulation of several Global Environment Facility projects.

In 1998, UNIDO undertook missions aimed at promoting UNIDO participation in Global Environment Facility (GEF) programmes. Cooperation with UNDP was enhanced through joint activities and visits of UNDP staff to UNIDO Headquarters.

Implementation continued on the two ongoing GEF projects (energy conservation and pollution control in township and village enterprises in China; and water pollution control and biodiversity conservation in the Gulf of Guinea large marine ecosystem). In 1998, UNIDO participation was approved in three GEF projects: (a) renewable energy and energy efficiency capacity-building in Sri Lanka (\$761,995); (b) fuel efficiency in road transport in Pakistan (\$979,000), for which the implementation modalities are under review; and (c) the global project for removal of barriers to the abatement of global mercury pollution from artisanal gold mining (\$318,182).

Continuing innovation in biotechnology and transfer of biotechnology-derived processes and products is beginning to have an impact on the economies of the developing world. Consistent with its role as task manager for Chapter 16 of Agenda 21, UNIDO has initiated a series of activities that provide a forum for the discussion of biotechnology in its broader socio-economic perspective. UNIDO's biotechnology forum aims at bringing together policy-makers, donor agencies, representatives of public interest groups and industry to periodically review new innovations and controversies arising from the application of biotechnology and the commercialization of products derived therefrom. Forum results are intended as inputs to the implementation of Chapter 16 of Agenda 21. Under the title "Biotechnology in Public: DNA and the Quality of Life", the first biotechnology forum was held in December, co-organized with the European Federation of Biotechnology and sponsored by the City of Vienna and the Government of Austria.

The main emphasis of UNIDO assistance under the Montreal Protocol is in direct support to enterprises in converting production lines to eliminate the use of ozone-depleting substances (ODSs). During the year UNIDO rendered a broad spectrum of specific services, including:

- ❑ Plant-level conversion to non-ODS-based production lines and substances;
- ❑ Capacity-building of national authorities and enterprises;
- ❑ Alternatives to ODSs in fumigants in selected agro-industrial applications.

UNIDO entered the year with a pipeline portfolio of more than 100 investment, demonstration and non-investment projects, amounting to more than \$41 million in 40 countries. In 1998 the Multilateral Fund for the implementation of the Montreal Protocol approved for implementation by UNIDO 38 investment projects in 16 countries at a value of \$16.26 million (without overheads) to eliminate 2,563 ozone depletion potential (ODP) tonnes from aerosols, foam, refrigeration and solvents. In fumigants, where UNIDO has maintained its leading international role in eliminating the use of methyl bromide, 20 projects in 20 countries amounting to \$7.12 million (without

overheads) have been approved for UNIDO implementation. At the end of 1998 UNIDO was implementing under the Montreal Protocol 425 projects in 62 countries with a total value of \$158.5 million to phase out more than 21,000 ODP tonnes. Further, UNIDO received approvals for a number of non-investment projects, namely the preparation of refrigerant management plans in 13 countries, the establishment of the Ozone Secretariat in one country (institutional strengthening) and project preparation of investment projects. In addition, UNIDO cooperated with the Government of Austria, using funds provided under the bilateral programme of the Montreal Protocol, to implement a project in Romania. Also under the bilateral programme, the Organization cooperated with France, Germany and Japan in planning joint activities expected to start in selected developing countries in 1999.

B. Cleaner and sustainable industrial development

Since 1994, the National Cleaner Production Centres programme has established 14 Centres, four of these during 1998 (Costa Rica, El Salvador, Nicaragua, Viet Nam). For these and four other Centres (Brazil, Czech Republic, Hungary, Slovakia) the year was spent initiating and continuing the build-up of capacities in four core services: in-plant demonstrations, training, information dissemination, policy assessment and advice. For the remaining six (China, India, Mexico, Tunisia, United Republic of Tanzania, Zimbabwe) UNIDO's capacity-building activities were successfully completed during 1998; through the selling of their services and with other sources of financing these Centres will continue to contribute to cleaner production. Preparatory work advanced sufficiently in three other countries (Croatia, Guatemala, Morocco) so that new Centres can be expected during 1999. Finally, a cleaner production demonstration project was brought to successful completion in Uzbekistan, and several sector-specific cleaner production projects were continued or completed during the year.

The activities of the programme for environmentally sustainable industrial development (ESID) were continued in several countries during the year (Kenya, Madagascar, Morocco). The goal is to establish the institutional and technical capabilities—both in the industrial sector as well as in government—necessary for the conception and implementation by the country of a strategy of environmentally sustainable industrial development.

In agro-industries all main services are resource-based and relate to ESID aimed at stabilizing rural populations, contributing to food security, reducing post-harvest losses and waste through industrial processing of agricultural and forest produce. The main means is by upgrading technologies and skills through building up the capacities of national institutions to provide the necessary support services and demonstration of efficient production methods leading to increases in profitable employment.

Increasing emphasis has been on sustainable leather tanning operations, including safe disposal of solid waste and sludge and on occupational safety and health, as well as on waste minimization in the leather products sector. Continued support was given to clean and safe food production within the aims of the World Food Summit, including several projects aimed at training women entrepreneurs. Support from the Leather Panel and donors permitted the implementation of a strong programme in East and Southern Africa through the respective industry associations aimed at continual improvement in hides and skins and leather products manufacturing. The first tannery waste water treatment plant in Nepal was commissioned in 1998.

Box 18. Gulprit Singh—A happy man thanks to UNIDO

Eight years ago Gulprit Singh was in deep trouble. The Pollution Control Board of Punjab had requested him to install a wastewater treatment plant to treat the highly toxic waste from his textile dyeing and finishing mill. Gulprit Singh knew that his factory was causing serious environmental problems, but his factory compound offered insufficient space to construct an adequate wastewater treatment plant. Moreover, he calculated that the cost of installing and running the treatment plant would turn his bottom line from black to red. Consequently, he would have to close the factory, leaving himself and 40 employees without jobs.

While negotiating with the Pollution Control Board, Gulprit Singh continued looking for ways to comply with the environmental laws. Hearing of a seminar to be held by the Indian National Cleaner Production Centre (NCPC) in Ludhiana, he decided to participate. Gulprit Singh did not really believe he could solve his problems through cleaner production methods. It was too simple—he knew exactly how he should produce to get the best quality with the lowest possible input of raw materials. However, he decided to test the NCPC experts and invited them to inspect his factory.

On their first visit, the experts showed him a few tips that immediately improved both the economic and environmental performance of Gulprit Singh's company. During the next year, he worked closely with them to identify wasteful processes and come up with innovative solutions to deal with them. In the end, Gulprit Singh identified 36 cleaner production options he could adopt to improve his firm's environmental performance, 22 of which he implemented immediately.

Having implemented the 22 measures, the required capacity for the wastewater treatment plant had been reduced to such an extent that he was able to construct in 1998 a treatment plant within his compound. More importantly, the savings generated from the cleaner production measures increased his profitability, thereby allowing him to save money which he plans to invest in a new factory. The new facility will be designed and constructed with built-in cleaner production, thereby minimizing the costly end-of-pipe treatment.

C. Services in support of agro-based industries

Examples of support to agro-based industries include components covering the food, leather and textile sectors in the integrated programmes for Burkina Faso, Uganda and the United Republic of Tanzania. The project to provide technical support through the Swiss Humanitarian Aid Agency to the Huambo Province of Angola was completed. Three key bridges were replaced using the UNIDO prefabricated modular wooden bridge system and the capacity to make them and modular school furniture was transferred to the counterpart cooperative in Huambo. Strategic advice was provided to Uruguay on the development of a sustainable wood-processing industry based on plantation species, especially eucalyptus. The development of information management and investment analysis and evaluation tools continued resulting in a prototype interactive CD-ROM database system for use on the Internet, including a comprehensive manual (and CD-ROM) on woodworking machinery selection options.

A good example of South-South cooperation was a UNIDO-sponsored visit by the Minister of Industry of the Syrian Arab Republic to Brazil, where UNIDO has implemented a highly successful CAD-CAM training programme. A project to develop the textile sector in West Africa—*tissuthèque*—involved training entrepreneurs in the technologies of weaving, dyeing and finishing, quality control, marketing, enterprise organization as well as in health and environmental issues. Significant inputs were made to the formulation of integrated programmes in Burkina Faso, Uganda and the United Republic of Tanzania in this sector.

A new programme framework was prepared and the formulation of integrated projects was initiated for Africa, in particular on seed coating and crop preservation, non-synthetic chemical-based pesticides and medicinal plant processing.

Activities in the agricultural machinery subsector aimed at the introduction and improvement of agricultural machinery systems to support agricultural processing, especially the multi-purpose platform for basic food processing at the village level, which underwent further testing and development.

VI

Field representation

The year involved the consolidation of the UNIDO field programme in line with the Business Plan, which emphasized decentralization of substantive responsibilities, strengthened field programme development, and selected implementation activities with enhanced delegation of authority with the requisite accountability.

UNIDO field representation is in line with the reform measures of the United Nations Secretary-General, which stress the need for greater cooperation and coherence among funds and programmes in the field within the system, as well as for a unified United Nations field representation. Against this background, a cooperation agreement concluded with UNDP on field-level activities will enhance the effectiveness and harmonization of development cooperation programmes.

Extensive reporting to the policy-making organs in 1998 outlined the far-reaching action taken during the year, including measures directly addressing the concerns expressed in the Business Plan. Within this context, the development and issuance of administrative instructions defined the operational parameters of UNIDO country and subregional offices and national focal points. The mandate and functions of each entity were defined and the relationship with Headquarters established. The system is functioning smoothly.

Box 19. Administrative instructions on field representation

- DGAI No. 7: Decentralization and delegation of authority to UNIDO's field offices
- FOA/AI.1: Terms of reference of UNIDO's field offices
- FOA/AI.2: Delegation of financial authority — Field office budgets
- FOA/AI.3: Delegation of financial authority — Substantive activities
- FOA/AI.4: Guidelines and procedures for the recruitment by UNIDO Field Representatives of short-term ad hoc local consultants
- FOA/AI.5: Guidelines and procedures for the implementation and administration of UNIDO fellowships and study tours by UNIDO Field Representatives
- FOA/AI.6: Decentralized procurement authority for UNIDO's field offices

The administrative instructions and guidelines have been institutionalized to strengthen the financial and operational capabilities as well as functions of the field offices. These measures have been followed up with delegation of financial authority to the UNIDO Representatives for the operation of the country offices, including procurement and recruitment services. In addition, country offices are to be provided with financial resources to undertake programme development activities. These could include initial screening of project proposals, undertaking needs assessment, analysis of problems addressed through industry surveys, interviews with various stakeholders and hiring of national consultants in support of the process. An enhanced role and functions of the Regional Bureaux and field offices are detailed in DGAI No. 9 on the new management framework, service management cycle and cost accounting. These administrative tools provide the country offices with the required mechanisms to carry out their enhanced functions and to ensure that UNIDO services are needs-based and demand-driven. Now that specific responsibilities have been given to the field offices, the Organization is planning to make available to them additional financial resources for undertaking programming activities in the field.

As of 31 December 1998, UNIDO maintained 24 field offices headed by UNIDO Representatives (URs), nine in sub-Saharan Africa, four in Arab States, five in Asia and the Pacific, and six in Latin America and the Caribbean. In addition, three field offices were headed by UNIDO National Directors (Nepal, Togo, Turkey), and one by a National Programme Officer (Cuba). Two offices headed by an Area Programme Officer (Uzbekistan, Viet Nam) and eight by Junior Professional Officers operated in countries without a resident UR. A complete listing of field offices by region and country, together with the staff structure, is shown in the programme performance report (IDB.21/11-PBC.15/11).

A number of current developments are indicative of the future orientation for the field network. Apart from the 30 country offices approved, negotiations are underway with a number of other countries for opening offices on the basis of host country financing of local costs. International staff will be assigned through the redeployment of existing professional Headquarters personnel. Moreover, UNIDO is planning to redeploy a few professional personnel from Headquarters for placement in UNDP offices in selected countries (Russian Federation, Thailand) to carry out UNIDO programme activities.

The process of selection of countries for five subregional offices has been initiated. With international staff redeployed from Headquarters, these offices are expected to commence operation during 1999.

VII

Performance management

The programmatic transformation process, as described in the new management framework, aims at increasing the impact of UNIDO services. The systematic management and assessment of the efficiency, effectiveness and impact of those services is rendered through a range of organizational support functions coordinated by the Office of the Director-General comprising programme quality, evaluation and internal oversight.

A. Programme quality

UNIDO's quality objective is to best serve clients' industrial development needs in a manner which provides the greatest and most effective contribution to the process of sustainable development consistent with the mandate, knowledge and experience of the Organization.

Since the launch of the transformation process, the Secretariat has designed a set of strategies which fully incorporate the Organization's quality principles and criteria. Under the Director-General's leadership, the prerequisites to achieving quality objectives were put in place by providing:

- ❑ A clear vision of the desirable path to sustainable industrial development in line with the Business Plan adopted by Member States;
- ❑ A clear sense of unity and direction based on the development of a set of service modules;
- ❑ Mechanisms for cross-organizational cooperation to ensure that UNIDO clients receive the full range of UNIDO services to maximize programme impact;
- ❑ An improved working culture through teamwork and empowerment, a sense of continuous improvement and openness to innovation;
- ❑ An atmosphere of transparency and dialogue with Member States.

To advise management on how to improve and implement selected transformation strategies, five cross-organizational teams led by the Director-General's office were established. Two of these worked on subjects directly related to the Organization's strategy to improve quality management and to continuously improve its technical cooperation programmes: the Cross-organizational Teams on Programme Quality Services and on Evaluation. The feedback report of the self-assessment exercise financed by Germany and conducted during 1997 provided a framework and valuable analytical input to these teams.

A Programme Advisory Group, established by the Director-General, built on these activities. This and the work of a specially constituted group culminated in the issuance of Director-General's Administrative Instruction No. 9 entitled "New Management Framework, Service Management Cycle and Cost Accounting", and the publication of a Compendium of Service Modules. The latter is composed of a set of distinctly structured technical cooperation elements that can be combined and integrated to meet the requirements of UNIDO clients.

The innovative service management cycle is designed to ensure programme quality and is composed of the following interdependent elements:

- ❑ A set of services UNIDO can offer in the context of the Business Plan and its competencies;
- ❑ Service delivery plans and integrated programmes designed to meet the needs and priorities of a given country based on a regular dialogue and assessment of country needs;
- ❑ A regional and country-based service identification process and in-house screening mechanism supported by service summary sheets which, *inter alia*, justifies and recommends to the Executive Committee the actions and resources required to develop programmes that meet the needs of the recipient countries;
- ❑ Cross-organizational teams for the development and implementation of programmes;
- ❑ An organization-wide "buy and sell" mechanism to facilitate the provision of in-house expertise to programmes;
- ❑ Continuous monitoring by team leaders and team members;
- ❑ A set of performance indicators to assist in monitoring and reporting;
- ❑ Assessment of effectiveness and impact through an improved evaluation system consisting of progress reports, periodic review meetings, terminal reports, independent evaluations and client feedback, and rapid impact assessments;
- ❑ Application of UNIDO's quality criteria of relevance, ownership, cost-effectiveness, sustainability and impact throughout the programme cycle;
- ❑ A programme quality coordination function in the Director-General's office to guide and advise staff on the processes involved;
- ❑ A staff costing system.

Further development work on a programmatic quality system will be carried out during 1999 to improve programmatic coordination, guidelines, performance reporting, decision-making, human resource management and administrative support services.

Additional quality-related activities carried out during 1998 included:

- ❑ UNIDO hosted a working session on "ownership in development cooperation" with 31 representatives of multi- and bilateral development cooperation agencies and several practitioners, to discuss how to ensure local ownership of a development process by the people who have the will, authority and capacity to lead that process (Vienna, 10-11 September).
- ❑ Five participatory planning workshops were conducted with project stakeholders. Three of these were prepared and moderated by UNIDO staff: in Uganda, on development of metal-working industries (April) and of the textile industry (September); in Morocco, on local ownership of the cleaner production programme (December). These workshops also served to test the

methods developed to ensure local ownership of the development process. Two workshops, with external moderators, focused on women's entrepreneurship development in Côte d'Ivoire and Zimbabwe.

- ❑ A draft manual on moderation and communication techniques was prepared for use in participatory planning workshops, focusing on local ownership. The manual also covers training elements for UNIDO moderators and how to establish trust and confidence with local clients. New training programmes on the management of technical cooperation were also developed.
- ❑ Programme quality officers advised teams on the formulation of integrated programmes.

B. Evaluation

The evaluation function in UNIDO was reviewed and supported by a cross-organizational team. A new evaluation instrument (rapid impact assessment) was introduced in the new management framework. In early 1998, an evaluation database became operational which will make it easier to handle data on technical cooperation project performance. In addition, UNIDO participated in the proceedings of the United Nations Inter-agency Group on Evaluation and advised on evaluation methodologies for the Montreal Protocol programme.

Annual analysis of technical cooperation

On an annual basis, UNIDO analyses the results of all in-depth evaluation and self-evaluation reports completed during the previous year. Approximately 40 per cent of projects are subject to either self-evaluation, independent evaluation, or both. Projects not assessed by evaluation staff include those funded by the Montreal Protocol (which has its own evaluation system), selected UNDP projects and some very small projects with a budget below \$15,000.

The analysis of the evaluations conducted during 1997 was based on 18 in-depth evaluation reports, 36 annual project progress reports and 147 terminal small-scale project reports representing approximately \$85 million in terms of revised budgets and \$71 million in expenditures at the time of evaluation.

Independent (in-depth) evaluations provide the most objective basis for assessment of project quality. The number of in-depth evaluations increased from 13 in 1996 to 18 in 1997. The 18 in-depth evaluations completed during 1997 cover 42 projects with an average duration of 3.8 years and an average value of \$817,000. Sixty per cent of the in-depth evaluations were conducted as terminal and only 40 per cent as mid-term evaluations. If evaluation is to be enhanced as a management tool, these proportions need to be reversed.

The number of self-evaluation reports decreased from 54 in 1996 to 36 in 1997, and terminal reports used by smaller projects decreased from 175 in 1996 to 147 in 1997. The decrease is mainly due to the lower number of projects overall and an increasing number of nationally-executed projects not subject to UNIDO evaluation.

Most evaluated projects exceeded planned duration. This was due to the fact that (a) the planned duration was too short, (b) implementation was delayed and (c) projects were not closed at the time of their operational completion.

Approximately 66 per cent of the outputs of evaluated projects were satisfactory or better. Compared to the previous year, achievement or likelihood of achievement of immediate objectives (effectiveness) showed a decrease from 77 per cent to 69 per cent (see table 2).

Project performance depends also on the quality, quantity and timeliness of UNIDO services (inputs) and client inputs. In general, the inputs delivered by UNIDO were good, with shortcomings mainly in terms of delays. Problems with local inputs are usually caused by local budgetary constraints. This also influences the sustainability of the results produced, particularly in capacity-building projects.

Prevailing satisfaction with UNIDO services is also apparent from the 46 client feedback questionnaires received in 1997 (see table 3). However, the positive assessment reflects only the responses received (38 per cent of all questionnaires sent out) and the size and representativeness of the sample.

Lessons learned

In addition to its accountability function, the Group provides a unique platform to identify practical solutions based on lessons learned from experience. In its annual report the Evaluation Group listed a number of such lessons, the most important appearing under industrial sectoral associations and technology-related centres.

C. Internal oversight

The Office of Internal Oversight, formerly Internal Audit, in 1998 assumed greater responsibility and broadened functions with more emphasis on reviewing the functioning of organization-wide management control systems and procedures. Now headed by an Inspector-General, the Office provides the Director-General with analyses, recommendations and advice.

Table 2. Performance assessment (effectiveness)

(Percentage)

<i>Effectiveness</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
More than planned	—	—	—	2
As planned	26	46	54	44
Slightly less than planned	39	25	23	23
Subtotal	65	71	77	69
Less than planned	30	23	15	27
In trouble	—	—	—	4
Subtotal	30	23	15	31
Cannot determine	4	6	8	—

Table 3. Client feedback, 1997

Number of questionnaires sent = 122; received = 46								
Overall assessment		Number		%				
More than expected		8		19				
As expected		26		60				
Less than expected		9		21				
UNIDO inputs	Timeliness				Quality			
	As scheduled		Delayed		Satisfactory		Unsatisfactory	
Experts	34	85%	6	15%	29	91%	3	9%
Subcontracts	13	93%	1	7%	10	77%	3	23%
Training	24	86%	4	14%	27	96%	1	4%
Equipment	20	71%	8	29%	26	100%	—	0%
Software	19	83%	4	17%	21	95%	1	5%
HQs technical support	36	95%	2	5%	29	100%	—	0%
UNIDO administrative performance					27	96%	1	4%

Observations, audits, investigations and comments

Audit activities are documented in various exercises, including observations or comments that are sometimes used as inputs to more comprehensive audit reports. Reports and observations contain recommendations that are followed up regularly. During the year, the Office of Internal Oversight produced a total of 66 reports, which vary considerably according to length of study and scope.

Numerous reviews of specific actions or situations were conducted during 1998 in response to management inquiry or observations of Internal Oversight staff during periodic tracking of operations. Often, these short studies do not result in specific recommendations but are rather intended as inputs into the decision-making process. Eighteen such reports were provided to the Director-General during the second half of the year (11 for information/clarification, six pointing out deficiencies in control mechanisms, and one relating to disciplinary measures).

In general terms, audits are planned events conducted routinely to: (a) review the reliability and integrity of financial and operating information; (b) review the systems established to insure compliance with policies, plans, rules, regulations and other administrative guidelines; and (c) appraise the economy and efficiency with which resources are employed. Audit activities involve a systematic process resulting in recommendations to remedy deficiencies or improve performance. During the year, the Office issued 16 formal reports (four project reports, two reports relating to overall project

management, three financial/management audit reports, four on personnel matters, and three organizational reports).

Investigations are carried out by Internal Oversight following specific allegations involving possible violations of regulations, rules and other pertinent administrative issuances, on misconduct, mismanagement, waste of resources and on abuse of authority. During the year, the Office conducted 10 investigations (four related to projects, three related to Headquarters, and three related to field offices). While audits and other reports are available for review, investigations are reported confidentially to the Director-General.

Comments are provided following requests by the Director-General on various issues but also by managers who need advice on official documents or assistance in the decision-making process. In 1998, Internal Oversight provided a total of 22 audit comments, of which eight to the Director-General (six on organizational issues, one related to a project and one to field offices) and 14 to managers (five related to projects, five to Headquarters and four to field offices).

Audits and investigations have achieved economies in administrative and operational areas. An internal investigation resulted in the discontinuation of undue staff entitlements. In operational improvement, a technical cooperation project was terminated in view of its failure in terms of efficiency, accountability and transparency. UNIDO's project portfolio was streamlined, and unnecessary Director-General's bulletins and committees were abolished. Financial management was improved by transferring staff welfare and subsidiary funds to the Staff Council, thereby releasing UNIDO staff for core activities.

Strengthening through cooperative efforts

In cooperation with the cross-organizational teams to improve Secretariat operations, Internal Oversight contributed a draft report outlining the framework for integrated financial management reporting, which provides detailed analysis of the Secretariat financial and management structures necessary to develop an integrated management information system. This report describes the intricate structures that form the framework of UNIDO's business processes. Material gathered by the external audit team was also used.

Close cooperation and collaboration were established with the Evaluation Group during an extensive review of project evaluations. This combined effort substantially increased effectiveness.

An investigation involving a project in the field resulted in strengthening ties with the United Nations Office of Internal Oversight Services and the UNDP Office of Audit and Performance Review, and more cooperative efforts are foreseen. In addition, the External Auditor has been kept informed of events and coordination with the External Auditor continues as an important Internal Oversight function.

As coordinator for UNIDO activities with the Joint Inspection Unit (JIU), the Office met with JIU staff to find ways to improve the Unit's effectiveness and relevance towards UNIDO's goals and objectives.

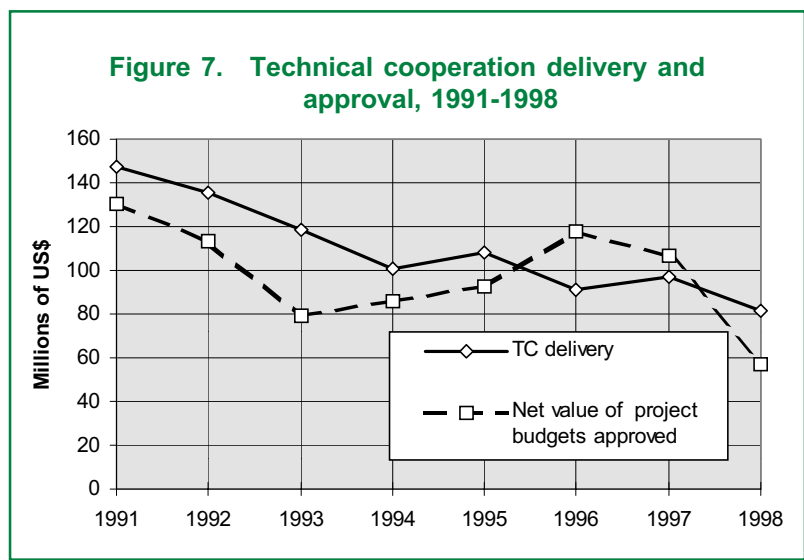
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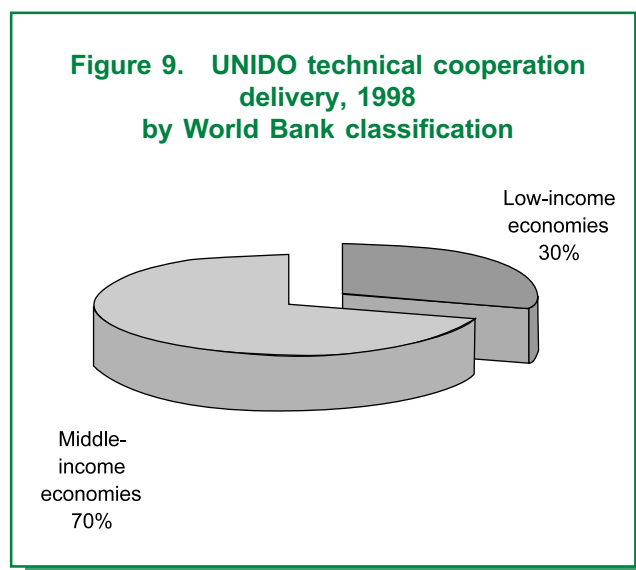
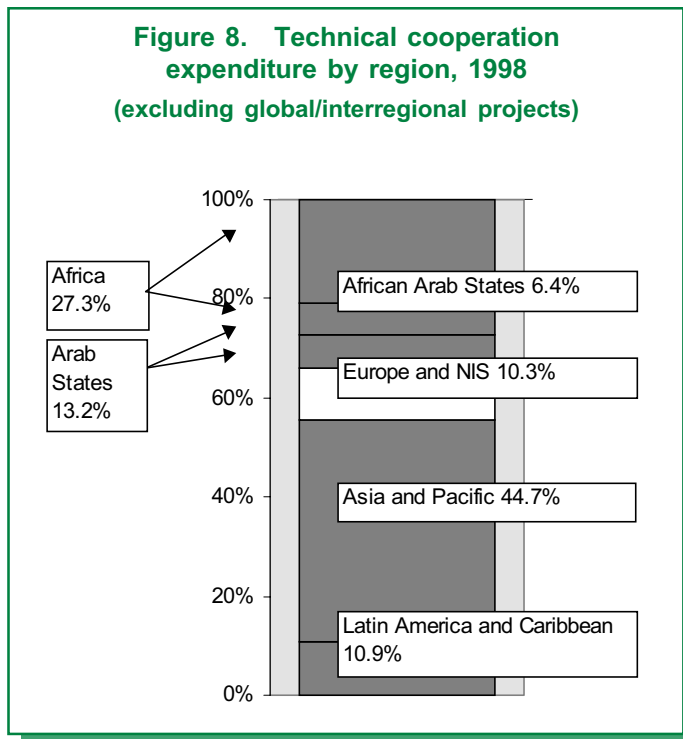
Aggregate statistical analysis

Technical cooperation in 1998 was affected by a 20 per cent budget reduction and the one-time effect of the transformation exercise that took place for more than half the year. Indeed, technical cooperation delivery decreased by 16.7 per cent, to \$81.1 million from \$97.3 million in 1997 (figure 7). Project approvals showed an even sharper decrease, by 49.2 per cent, to \$57.2 million from \$106.4 million. However, as pointed out elsewhere in this report, the price paid in lower delivery and approval figures for one year is viewed as an investment in achieving the mandate of the Business Plan approved by Member States. It is an investment in providing conditions to better serve the interests and needs of donor and recipient countries alike.

In terms of regions, Asia and the Pacific was the largest recipient of UNIDO technical cooperation with a share of 45 per cent. Africa continued to be the second largest beneficiary of UNIDO services with a share of 27.3 per cent. The sub-Saharan countries accounted for 21.9 per cent (figure 8). Chapter III outlines the priority on Africa and least developed countries in the context of the new programmatic focus and the consequent increased technical cooperation delivery foreseen.

A review of 1998 UNIDO technical cooperation delivery in accordance with the World Bank classification system reveals that 30 per cent was directed towards low-income economies, 70 per cent to middle-income economies, and a negligible volume to high-income economies (figure 9). The shift from the low-income economies to middle-income economies was caused by the change in the classification of five countries (China, Equatorial Guinea, Georgia, Guyana and Sri Lanka) from the former to the latter group.





Looking into the sources of funds, the share of technical cooperation delivery under the Montreal Protocol increased dramatically from 29.8 per cent in 1997 to 41.1 per cent in 1998 (figure 10). On the other hand, the regular budget share of total delivery decreased from 7.2 per cent in 1997 to 2 per cent in 1998. A decrease to 20.1 per cent from 25.0 per cent was also recorded in technical cooperation delivery funded by UNDP. The weight of IDF and trust funds remained virtually unchanged.

A further result of the large proportion of Montreal Protocol activities of total UNIDO delivery was a visible increase in the share of the subcontract component, from 31 per cent in 1997 to 35 per cent in 1998. While this increase was at the expense of the project personnel component, the remaining three components remained at the 1997 level (figure 11).

Figure 10. Technical cooperation expenditure by source of funds, 1998

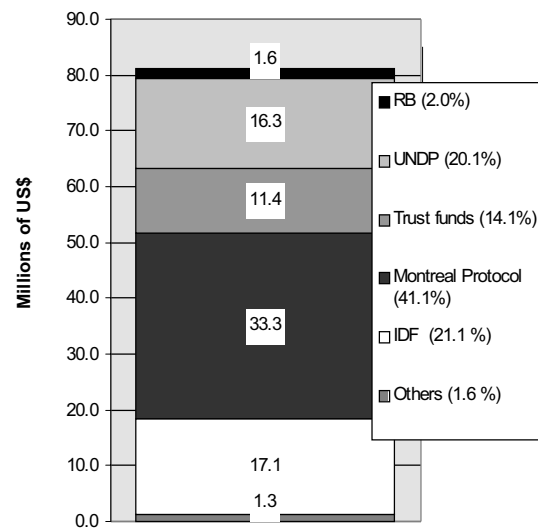
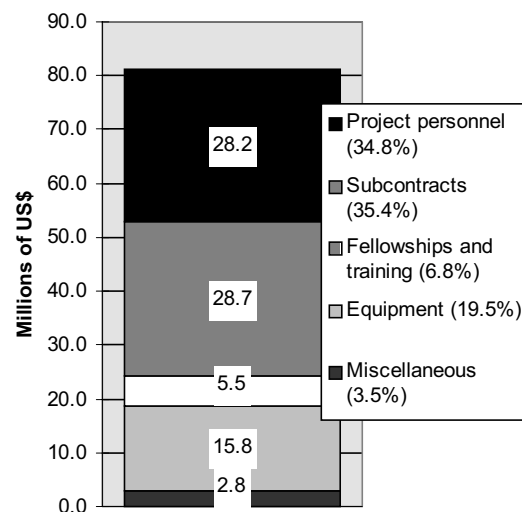


Figure 11. Technical cooperation expenditure by project component, 1998



As shown in chapter I, an examination of new projects approved during the year under the Business Plan shows that activities related to environmentally sustainable industrial development (ESID) accounted for more than half of 1998 approvals.¹ ESID strategies, technologies and international protocols accounted for 46 per cent, followed by environmentally sustainable industrial strategies and technologies (14 per cent).

¹Under cleaner and sustainable industrial development, the Business Plan specifies two types of activities: (a) support programmes on ESID strategies and technologies, including on transfer of environmental technologies within industrial subsectors assigned high priority; and (b) development of specific norms and standards relating to ESID strategies and technologies, and implementation of international protocols, agreements and conventions.

An obvious characteristic of 1998 technical cooperation delivery and approvals was the relatively large share of Montreal Protocol activities in the UNIDO total. As explained in greater detail in chapter IX, policies and funding levels for Montreal Protocol activities are determined by the Conference of the Parties to the Protocol, and the operation of the Fund is the responsibility of the Executive Committee and the Fund Secretariat. Thus, activities financed from this source of funds were largely unaffected by the slowdown in programme and project development during the transformation process. A more diversified portfolio can be expected to emerge in 1999, with the development and implementation of the integrated programmes.

The build up of project approvals developed very slowly in the first half of 1998. It gradually started to pick up speed thereafter, with the introduction of the programmatic reform. One third of total approvals of 1998 was registered in December—an encouraging sign for the future outlook of UNIDO.

Table 4. Technical cooperation activities: project expenditure in 1998, by geographical area
(in thousands of US dollars)

	Africa (excluding African Arab States)		African Arab States		Asia and the Pacific (excluding Western Asian Arab States)		Western Asian Arab States		Arab regional		Europe and NIS		Latin America and Caribbean		Global and Interregional		Total
		%		%		%		%		%		%		%		%	
A. By source of funds																	
UNIDO regular budget																	
RP	0	0.0	0	0.0	82	0.3	1	0.0	0	0.0	163	2.3	223	3.0	341	2.6	810
IDDA	747	5.3	66	1.5	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	813
UNDP/IPF, cash																	
counterpart special																	
measures, TRAC ^a	4,277	30.2	339	7.9	5,376	17.7	1,271	28.1	10	10.2	2,051	29.4	498	6.7	0	0.0	13,822
UNDP-administered																	
trust funds	1,737	12.3	0	0.0	706	2.3	0	0.0	0	0.0	0	0.0	0	0.0	18	0.1	2,461
Self-financed trust funds	267	1.9	179	4.1	109	0.4	3	0.1	0	0.0	3	0.0	2,099	28.3	0	0.0	2,660
Third party-financed																	
trust funds	1,207	8.5	474	11.0	863	2.8	20	0.4	0	0.0	586	8.4	69	0.9	4,620	34.7	7,839
Other trust funds	288	2.0	9	0.2	127	0.4	0	0.0	0	0.0	45	0.6	35	0.5	432	3.2	936
IDF	3,063	21.6	172	4.0	4,193	13.8	124	2.7	88	89.8	694	10.0	1,246	16.8	7,554	56.7	17,134
Montreal Protocol	2,497	17.6	3,078	71.3	18,817	62.1	3,069	67.9	0	0.0	2,765	39.7	2,856	38.6	266	2.0	33,348
UNDCP	85	0.6	0	0.0	15	0.0	29	0.6	0	0.0	665	9.5	382	5.2	84	0.6	1,260
Non-UNIDO funds	0	0.0	0	0.0	15	0.0	0	0.0	0	0.0	0	0.0	0	0.0	18	0.1	33
TOTAL	14,168		4,317		30,303		4,517		98		6,972		7,408		13,333		81,116
Total Africa		18,485															
Total Arab States		8,932															
B. By project component																	
		%		%		%		%		%		%		%		%	
Project personnel	6,212	43.8	894	20.7	6,370	21.0	674	14.9	32	32.7	2,279	32.7	3,141	42.4	8,608	64.6	28,210
Subcontracts	2,412	17.0	1,812	42.0	14,932	49.3	2,717	60.2	48	49.0	3,053	43.8	2,293	31.0	1,448	10.9	28,715
Fellowships and training	1,401	9.9	246	5.7	1,871	6.2	189	4.2	7	7.1	268	3.8	422	5.7	1,145	8.6	5,549
Equipment	3,361	23.7	1,290	29.9	6,588	21.7	843	18.7	0	0.0	1,241	17.8	1,185	16.0	1,311	9.8	15,819
Miscellaneous	782	5.5	75	1.7	542	1.8	94	2.1	11	11.2	131	1.9	367	5.0	821	6.2	2,823
TOTAL	14,168		4,317		30,303		4,517		98		6,972		7,408		13,333		81,116

^aIncludes UNIDO-implemented nationally executed projects.

IX

Mobilizing funds for UNIDO services

In terms of development of programmes and projects, and mobilization of funds for these activities, 1998 was a year of transition. After the staff reduction at the beginning of the year, followed by the restructuring, a considerable amount of time and effort was required for the redefinition of UNIDO's focus and working processes in line with the Business Plan. This transformation process inevitably slowed down programming and project development, and caused uncertainty on the continuing validity of projects already under development or under consideration by donors.

In 1998 the total volume of funds mobilized for technical cooperation activities was considerably lower than in 1997. New approvals, i.e. the total value of new projects, amounted to only \$55.3 million, down from \$92.9 million in 1997. Including net changes to ongoing projects, UNIDO mobilized \$57.1 million, as compared with the \$106.1 million reported in 1997.

Funds mobilized from Governments through the Industrial Development Fund maintained the best performance in relative terms. A total of \$15.1 million was approved in 1998 compared with \$17.3 million in 1997. The main areas covered by IDF contributions are: (a) investment promotion in relation to the existing IPS network; (b) environment, with contributions from Switzerland for the establishment of National Cleaner Production Centres in Costa Rica, El Salvador, Guatemala and Viet Nam for a total of more than \$4 million, a \$1.5 million approval from the Netherlands for a project in China on policies for sustainable industrial development, tannery effluent projects in Zimbabwe financed by the Netherlands and in Bangladesh financed by Switzerland; and (c) small-scale enterprise and entrepreneurship development projects in Mozambique financed by Austria, in Mali financed by Belgium, in India as well as a regional Central America project both financed by Switzerland. Other IDF projects were financed by contributions from China, Costa Rica, Czech Republic, France, Germany, Greece, Hungary, India, Ireland, Italy, Japan, Republic of Korea, Norway, Poland and Thailand.

However, the trust fund mechanism saw a sharp decline from \$15.6 million to \$6.3 million. Trust fund financing includes Associate Experts, provided in 1998 by Germany, Italy, Japan, the Netherlands and the Russian Federation. Other projects funded by Italy, Japan, Republic of Korea, Norway, Russian Federation and Sweden were mainly in investment promotion and small enterprise development. In addition, Junior Professional Officers (JPOs) were provided by Belgium, Germany, the Netherlands and Norway. However, as these are administered by UNDP, the amounts related to JPOs are not included in the above-mentioned figures. At the end of 1998 a total of 20 JPOs were on board with another nine under recruitment for fielding in the first four months of 1999.

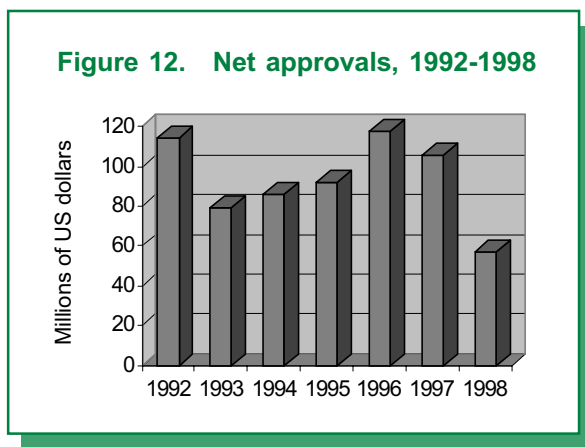
UNDP-financed contributions similarly declined from \$22 million to \$7.8 million and for the Montreal Protocol project approvals and revisions amounted to \$24.5 million as compared with \$44.0 million in 1997. For Montreal Protocol-financed projects, however, the very high approval figures of the previous years have resulted in a sufficiently large portfolio of projects under implementation. The distribution of approvals by region and subject is given in the programme performance report (IDB.21/11-PBC.15/11, appendix A).

The main reason for the decline in approvals was a considerable decrease in the volume of projects developed and submitted to donors. For instance under IDF, the total volume of projects officially submitted for funding in 1998 amounted to only \$26.1 million as compared with \$37.6 million in 1997. The situation for trust fund and UNDP-financed projects was similar. As mentioned above, in view of the changed focus, some pipeline projects were not developed further, and the development of new projects, as well as the integrated programmes called for in the Business Plan, logically had to await the finalization of the service modules and the development of a new operational approach.

For the Montreal Protocol the system is very different. Policies and funding levels are determined by the Parties to the Montreal Protocol, and the operation of the fund is the responsibility of the Executive Committee and the Fund Secretariat. Each of the three implementing agencies—UNDP, UNIDO and the World Bank—identifies activities suitable for funding that are submitted through an annual business plan/work programme. The Executive Committee meets several times per year to review and approve projects. In 1998 the Committee approved for UNIDO implementation projects with a value of approximately \$24 million. In addition to the established activities related to foam, aerosols, refrigerants and solvents, demonstration projects with a value of \$7.12 million were approved in the fumigants sector, directly relevant to agro-processing.

Other sources of funds included the Common Fund for Commodities with a project for the improvement of fibre extraction and identification of higher yielding abaca varieties, and GEF with two projects (removal of barriers to the abatement of global mercury pollution, preparatory assistance expected to lead to a large-scale project; and renewable energy efficiency capacity-building in Sri Lanka). UNIDO is also submitting projects to the United Nations Fund for International Partnerships (UNFIP) and the United Nations Foundation Inc. (the “Turner Fund”).

For 1999 a completely different situation is expected. With the completion of the definition of the service modules in 1998 and the preparation of the first integrated programmes, the transformation has been completed. In terms of funds mobilization this means that starting with the six draft integrated programmes for African countries made available to Member States during the twentieth session of the Industrial Development Board in November 1998, an increasing volume of high quality programmes will be submitted to donors, fully in line with the priorities set by Member States in the Business Plan. Furthermore, together with the Governments concerned, UNDP will be approached in order to participate in funding the programmes, concentrating on areas within UNDP’s country level priorities.



approached in order to participate in funding the programmes, concentrating on areas within UNDP’s country level priorities.

A new feature of 1998 was the first annual contribution made by Denmark, announced during the 1997 General Conference. The funds targeted specific types of activities in sub-Saharan Africa which have allowed UNIDO to be pro-active in the development of the first programmes and actually initiate action immediately after agreement on the programmes with the countries concerned. It has also enabled UNIDO to demonstrate its own commitment to the programmes to Governments *vis à vis* other local partners as well as local donors.

In 1999 donors and potential donors will be approached by UNIDO to present the service modules and explain the new systematic and focused approach to the development of integrated programmes as well as enhanced interdisciplinary team work within the Organization. Modalities for cooperation and funding options will be discussed and it is anticipated that at least some other donors may opt for adopting the Danish approach with respect to part of their contribution.

It is further anticipated that financing may become available for several of the service modules from funds dedicated to thematic priority subjects such as the environment, private sector development and women in development. When consultations take place at donor headquarters, the units responsible for such funds will be approached to discuss cooperation options.

The integrated programmes are also expected to be of interest to the bilateral donors working in the country concerned. The integrated nature is aimed *inter alia* at increasing the impact, and it is expected that co-financing such programmes or funding specific components in line with respective priorities will be attractive. At the country level, UNIDO will work closely with the Government when approaching such bilateral donors.

During 1999 a meeting of donors will be organized by UNIDO in cooperation with OAU and ECA, and under the leadership of the African Development Bank, as requested in the 1997 Declaration of the Assembly of Heads of State and Government of OAU and subsequently endorsed by United Nations General Assembly resolution 52/208. The meeting will be convened in the form of a consultative conference on industrial partnerships and investment in Africa at the end of September 1999. Its main objectives are to decide on measures to be taken for financing technical cooperation programmes elaborated in the framework of the Plan of Action of the Alliance for Africa's Industrialization and to promote industrial partnerships and investment in Africa. It is anticipated that the conference will demonstrate the importance of the UNIDO integrated programmes in addressing the industrial development needs of African countries and allow donors to better understand the requirements of African countries in that area.

ANNEX I

Administrative instructions and bulletins

Director-General's Administrative Instructions (DGAI)s

DGAI No. 1: Emergency measures and mechanisms (9 January):

Introduced emergency measures primarily to contain cash outflow. As a result, regular and operational budget cash outflow was minimized. It also prescribed the first steps of the transformation process. By suspending all DGBs and committees, DGAI No.1 prepared the ground for re-regulation of the Organization. The DGAI also provided the requirements for a successful downsizing exercise.

DGAI No. 2: Internal correspondence with the Director-General (26 January):

Requested managers to be concise and to the point in their correspondence with the Director-General. It also requested managers to express their opinion and not simply rubber-stamp correspondence. Decision-making process was improved.

DGAI No. 3: Extension of fixed-term appointments (30 January):

Introduced a one-time transitional measure by extending all fixed-term appointments until 28 February 1998. This action facilitated the staff reduction exercise on an objective basis.

DGAI No. 4: Procedures for certification and authorization of expenditures (11 March):

Concluded the first phase of the administrative transformation. It established the regular and operational budget allocation level for 1998 and introduced a temporary financial authorization system that entailed elements of decentralization and delegation of authority for transactions under the regular and operational budgets. On the other hand, the DGAI fully centralized the authorization of all transactions under the programme of technical cooperation. It also established a mechanism for the approval of new programmes and projects by confirming the role of the Screening Committee and referring all approvals to the Executive Board. The centralized authorization resulted in a lower level of technical cooperation delivery. However, management was able to assess ongoing activities and reflect their assessment in the formulation of the new service management system. This facilitated the wider decentralization under DGAI No. 6.

DGAI No. 5 and Add.1: Rationalization of committees and Director-General's Bulletins (12 March):

Phased out almost all DGBs and committees. The practice of management by committees has been discontinued, and only five internal committees remain in operation. Also, most of the DGBs were abolished and only those directly related to service delivery remain valid. This DGAI was intended to de-regulate and de-bureaucratize the Organization.

DGAI No. 6 and Add.1: New financial authorization system (13 May):

Represented a significant milestone in the administrative transformation of the Organization in that it introduced a decentralized financial authorization system supported by an accountability mechanism. Its provisions have already been applied to all regular and operational budget transactions and to all newly approved technical cooperation projects. The full implementation will start on 1 January 1999. Under DGAI No. 6, teams and programme/project managers have full authority and flexibility to decide on the manner in which financial resources are used to achieve output, results and goals. This DGAI established a financial environment conducive to speedy delivery of the Organization's services, while providing a safety system by the introduction of common "boundaries".

DGAI No. 7: Decentralization and delegation of authority to UNIDO's field offices (14 May):

Defined the functions and responsibilities of the field offices and delegated considerable authority to the field in the administrative areas following the principles of DGAI No. 6. It also announced the location of the 30 field offices of UNIDO. Its provisions have been further amplified in six administrative instructions issued by FOA.

DGAI No. 8: Staff career development system (14 May):

Aligned UNIDO's personnel policies with the new administrative and programmatic framework by announcing the basic principles of a new staff career development system. A comprehensive revision of job descriptions has been undertaken resulting in a complete inventory of jobs in the Organization. A detailed description of the new staff career development system has been prepared, which will allow the Organization to regularize its staff management operations by providing criteria for appointment, extension, promotion and separation of staff.

DGAI No. 9 and Add.1: New management framework, service management cycle and cost accounting (21 October):

Introduced a new management framework and service management cycle following the administrative reform and the definition of the service modules. The DGAI is based on the principles of "working together", "measuring costs" and "assessing impact", all intended to enhance the impact of UNIDO services in recipient countries. A number of supporting mechanisms have been designed and developed to make sure that the DGAI will be effective.

DGAI No. 10: Framework of the staff career development system (6 November):

In the context of the provisions of DGAI No.8, further defined UNIDO's staff career development system as a mechanism to foster primarily the horizontal development of staff competencies and professional expertise. It also elaborated the framework to be applied for staff planning, the selection process for recruitment and promotion, the extension of appointments and new appointments, the performance appraisals system, staff development and training and, finally, staff rotation and mobility.

Administrative Instructions of the Field Operations and Administration Division (FOA.AI)

FOA/AI.1: Terms of reference of UNIDO's field offices (14 May):

Defined the operational parameters of UNIDO's country offices, the subregional offices and national focal points. The mandate and functions of each entity was defined and the relationship to Headquarters established.

FOA/AI.2: Delegation of financial authority – field office budgets (14 May):

Provided the necessary financial framework for the operation of field offices. As a complement to DGAI No. 6, this instruction established the procedures for the preparation of annual field office budgets, their revisions, financial authority for expenditure against allotments, the role of UNDP in administering these budgets, and the control and reporting framework.

FOA/AI.3: Delegation of financial authority – substantive activities (14 May):

Addressed the delegation of financial authority to the field for the implementation of certain substantive activities such as consultants, short-term advisory services, the regular programme of technical cooperation and Industrial Development Decade for Africa activities.

FOA/AI.4: Guidelines and procedures for the recruitment by UNIDO Field Representatives of short-term ad-hoc local consultants (14 May):

Defined the procedures through which UNIDO Representatives can proceed with the recruitment, management and administration of ad hoc local consultants for the provision of short-term advisory services.

FOA/AI.5: Guidelines and procedures for the implementation and administration of UNIDO fellowships and study tours by UNIDO Field Representatives (14 May):

Defined the procedures through which UNIDO field representatives can implement the fellowships and study tour components of regular programme of technical cooperation projects for which the UNIDO Representative is given the implementing authority.

FOA/AI.6: Decentralized procurement authority for UNIDO's field offices (14 May):

Established the administrative framework for field offices to meet their procurement requirements for items of a limited value in a prompt, cost-effective and competitive manner. The delegation of authority was limited to \$20,000 for a single transaction from the same supplier.

FOA/AI.7: Certifying officers for UNIDO accounts other than technical cooperation project accounts (7 July):

Fulfilled the requirement of financial rule 109.4 by announcing the designation and functions of certifying officers.

FOA/AI.8: Project cycle management – Project revisions (29 July):

Described the purposes for which project budget revisions are prepared and the way in which they are reviewed and approved. The instruction covered all sources of funds.

FOA/AI.9: Control of non-expendable property and special items: revision of the writing-off procedure (22 October):

Defines and determines non-expendable property and special items and provides for guidelines applicable for writing-off procedures.

Director-General's Bulletins

<i>Symbol</i>	<i>Date of issuance</i>	<i>Subject</i>
UNIDO/DGB(M).78	9 January	UNIDO voluntary separation programme
UNIDO/DGB(M).78/Add.1	4 February	
UNIDO/DGB(M).79	9 February	New organizational structure of the UNIDO Secretariat
UNIDO/DGB(M).80	12 February	Staff separation and redeployment programme
UNIDO/DGB(M).81	19 February	Staff separation and redeployment programme— list of staff to be redeployed
UNIDO/DGB(O).82	27 February	Secretariat structure and assignment of staff
UNIDO/DGB(O).82/Add.1	27 February	
UNIDO/DGB(O).82/Add.2	9 March	
UNIDO/DGB(O).82/Add.3	23 June	
UNIDO/DGB(O).82/Add.3/Corr.1	24 June	
UNIDO/DGB(O).82/Add.4	23 December	
UNIDO/DGB(O).83	14 May	Secretariat structure and staff redeployment
UNIDO/DGB(O).83/Add.1	18 May	
UNIDO/DGB(O).83/Add.2	28 September	
UNIDO/DGB(O).84	21 July	Secretariat structure and assignment of staff
UNIDO/DGB(O).85	22 July	Secretariat structure and assignment of staff

ANNEX II

Service modules

INDUSTRIAL POLICY FORMULATION AND IMPLEMENTATION
STATISTICS AND INFORMATION NETWORKS
METROLOGY, STANDARDIZATION, CERTIFICATION AND ACCREDITATION
CONTINUOUS IMPROVEMENT AND QUALITY MANAGEMENT
INVESTMENT AND TECHNOLOGY PROMOTION
ENVIRONMENTAL POLICY FRAMEWORK
CLIMATE CONVENTION AND KYOTO PROTOCOL
ENERGY EFFICIENCY
RURAL ENERGY DEVELOPMENT
CLEANER PRODUCTION
POLLUTION CONTROL AND WASTE MANAGEMENT
MONTREAL PROTOCOL
SME POLICY FRAMEWORK
POLICY FOR WOMEN'S ENTREPRENEURSHIP DEVELOPMENT
ENTREPRENEURSHIP DEVELOPMENT
UPGRADING AGRO-INDUSTRIES AND RELATED TECHNICAL SKILLS

Industrial policy formulation and implementation

The increasing integration of the world economy, emerging international competitive pressures for efficiency gains and the compelling need to ensure social sustainability in the context of a rapidly changing framework of industrial development call for prudent advice on industrial policy formulation and implementation. Dovetailing the requirements of a competitive market orientation with domestic policy concerns such as employment generation and poverty alleviation requires well formulated and effective industrial policies and strategies. Drawing on comparative analyses of industrial policy experiences, UNIDO offers neutral and objective advice without a political or commercial vested interest to improve industrial governance in developing countries and economies in transition. UNIDO's assistance in formulating, implementing and monitoring industrial development policies facilitates participatory policy dialogue among major stakeholders with a high degree of transparency and accountability.

Statistics and information networks

This service module deals with a particular aspect of poverty—poverty of information. The service aims to narrow the information gap that is arising between and within countries: between those that have easy access to information (and know how to use it) and those that do not. UNIDO's services in this field make it easier and cheaper to access and disseminate the right

information at the right time to the right users. More specifically, they address two aspects of information poverty. First, they provide countries with timely, comparable, high-quality industrial statistics that comply with international standards, as well as policy-relevant information that can be derived from those statistics. Second, they offer assistance in building up national and local capabilities to use modern information and communication technologies. In this context, UNIDO provides support for the development of specialized information networks to support public- and private-sector decision-making. These information networks are especially designed to meet the particular needs and resource availability of the country concerned.

Metrology, standardization, certification and accreditation

Much needed gains from global trade will accrue to those developing and transition economies which offer competitive levels of product quality and meet a growing number of international standards. These standards span a broad and growing range of activities, from quality and environmental management systems, to matters of consumer health and safety, metrology and calibration of measurement equipment. The rapid demise of state-sponsored protection—along with growing unemployment and poverty—confront developing countries with the urgent need to upgrade and link capacities in standardization, metrology and the mechanisms for mutual recognition of related certificates. This module identifies institutional priorities and provides flexible solutions for the creation of competencies in standardization and metrology.

Continuous improvement and quality management

Continuous improvement is a dynamic process which fully utilizes an organization's people and technology to produce a continuous flow of improvements in product quality, costs and production flexibility—along with other attributes which add value and increase customer satisfaction. At the level of a nation's economy, continuous improvement drives productivity, competitiveness and growth—and is essential for sustained increases in social and economic development. This module identifies priorities for both policymakers and institutions, and offers a set of flexible services to assist in the creation of institutional capacity, which will provide the basis for a process of sustained increases in social and economic well-being.

Investment and technology promotion

Globalization of the world economy is gathering pace, with investment and technological innovation as the prime movers of economic and social development. The capacity of a country to attract and make optimum use of investment and technology flows depends on an enabling environment, including institutions and professional skills able to cope with the dynamic nature of international competition. This module highlights the services provided by UNIDO to developing countries and countries with economies in transition aimed at building up their capabilities to attract investment for industrial projects and to implement the full cycle of innovation, investment and technology transfer.

Environmental policy framework

The services in this module build capacities primarily within the nexus of ministries of planning, finance, industry and environment, the private sector and its allies in civil society to formulate and implement cost-effective and consensus-based environmental policies and regulations for the industrial sector. It enhances capabilities to formulate standards and practices that take into account not only environmental but also the socio-economic conditions of a country; provides training in permit writing, monitoring of compliance and enforcement that reflects the unique socio-economic and cultural situations in each country, and upgrades the capacities of regulatory agencies to accurately assess the actual magnitude of the emissions of pollutants by industrial facilities and the impacts of these pollutants on the ambient environment. The services in this

module build capacities at the regional (transboundary), national and provincial levels of government to carry out their environmental mandates with regard to industry and within the appropriate geographical boundaries.

Climate convention and Kyoto Protocol

This service module describes UNIDO's assistance to countries with developing and transition economies in implementing the United Nations Framework Convention on Climate Change and the Kyoto Protocol. This assistance helps countries improve the efficiency with which energy is used by their industries and strengthens industry's contribution to their sustainable development.

Energy efficiency

Energy is essential to economic and social development and improved quality of life. In developing countries, sharp increases in the provision of energy services are required to improve the standard of living of their growing populations. The supply of energy should be reliable, secure and at affordable costs. The production/generation, distribution and use of energy are sources of pollution and waste in developing countries. The environmental impact can be reduced through the efficient generation, distribution and consumption of energy.

This module aims at achieving sustainable and efficient use of energy by industry in developing countries and countries with economies in transition. Therefore, UNIDO's energy efficiency service module has been designed mainly to address issues such as: growing national and international pressure to reduce the environmental damage associated with fossil fuel consumption; and the need for greater energy efficiency in every sector of the economy in order to reduce costs, enhance competitiveness and conserve energy resources.

Rural energy development

Energy is essential to economic and social development and improved quality of life. Therefore, many developing countries, in particular the least developed countries, face the urgent need to provide adequate, modern energy services, especially electricity, to billions of people in rural areas. This service module aims at increasing energy use in rural areas through, particularly, increased use of renewable energy sources. Increasing the efficiency of energy use in rural areas is also a target. Promotion of the local manufacture of appropriate energy equipment for rural use through transfer of technologies and creation of capacities will be achieved by implementing demonstration projects.

Cleaner production

The services in this module build capacities primarily within industrial service organizations to work with small- and medium-sized enterprises in order that these enterprises can take advantage of the potential of cleaner production. Cleaner production addresses the industrial pollution problem by reducing wastes during the production process instead of dealing with them after the pollutants have been generated. Cleaner production includes preventive measures both for reduction of excess process inputs and utilization of non-product outputs. These services in this module include building capacities to increase awareness, to train both factory personnel and national experts to conduct cleaner production assessments, to identify sources of information on cleaner production techniques and technologies and to evaluate and adapt advanced cleaner production technologies. Capacity-building takes place in cross-sectoral industrial service organizations, primarily national cleaner production centres, and in subsector industrial service organizations that are delivering an array of services to enterprises.

Pollution control and waste management

The lack of pollution control and waste management services in developing countries and countries in transition can be attributed to the lack of awareness of the potential for pollution control services to solve environmental problems in a cost-effective manner and the lack of capacity to provide practical advice on the design and operation of pollution control and waste management technologies. The UNIDO response to these conditions is to build capacities to increase the awareness of the value of offering pollution control services and to provide appropriate advice on pollution control and waste management technology to enterprises. The advice offered covers both the selection of technologies and their operation of technologies as well as the associated management systems, such as collection of solid waste and the economies of building common wastewater treatment facilities. The capacity to offer advice is built by training programmes in environmental engineering skills and by identification of the most cost-effective technologies available from vendors around the world.

Montreal Protocol

The Montreal Protocol represents the framework for a global cooperative effort to combat the environmental hazard of ozone depletion. UNIDO, as one of the four implementing agencies of the Montreal Protocol, assists developing countries in their efforts to eliminate the use and production of ozone depleting substances (ODS) within the agreed time frame. In this context, UNIDO facilitates the transfer of environmentally sound (non ODS-based) technologies to developing countries and helps them strengthen their national capacity to comply with the provisions of the Montreal Protocol and thus contribute to the global effort for the recovery of the ozone layer.

SME policy framework

In a world of growing competition the challenge for those involved in small- and medium-scale enterprise (SME) promotion is to develop and improve policy support measures primarily by creating an environment that will enable SMEs to emerge and prosper on their own. A coherent government policy is crucial in creating a “level playing field” for SMEs to develop and grow. The main thrust of this service module is to strengthen national capabilities to establish an effective policy and institutional environment for promoting the SME sector and its contribution to industrial growth and productive employment. The services emphasize that cooperation is needed between government and the private sector in developing national strategies and policies to promote the SME sector, improving the legal and regulatory framework and promoting a network of demand-driven institutions and support measures addressing the needs of SMEs.

Policy for women’s entrepreneurship development

Gender-sensitive industrial policy is a major precondition to promoting sound and efficient entrepreneurial activities by women entrepreneurs. UNIDO’s service module addresses the need for strengthening the capacity and capabilities of decision-makers in government, the private sector, and SME-related parastatal organizations in assessing the needs and constraints of and opportunities for women entrepreneurs in industry. Through the provision of services for gender awareness building, information collection and analysis on the participation of women entrepreneurs in industry (if required, on a subsectoral basis) as well as recommended policy measures, this will lead to gender-sensitive policy formulation and implementation, to the establishment of appropriate support services for women entrepreneurs and to skill development programmes for women entrepreneurs.

Entrepreneurship development

Small and medium-scale enterprises play a leading role in industrial development, particularly in creating employment, and the role of entrepreneurs is critical to the growth in the number and efficiency of SMEs. Entrepreneurs may face many constraints, however, as a result of the size and isolation of their businesses, and their own inexperience. These constraints include difficulties in obtaining financing; insufficient knowledge of laws, registration procedures, and government regulations; inadequate physical infrastructure; and general inexperience with basic business and administration. Various types of support services have been developed to help entrepreneurs overcome these constraints. These activities include advisory services for small businesses, training and business publications, business incubators, assistance in establishing networking arrangements, and support to rural entrepreneurs. Institutions providing these services are often non-existent, however, or inadequately designed or organized to provide these services well. UNIDO provides capacity-building assistance in establishing or improving these institutions, so that entrepreneurs can receive cost-effective support to overcome some of the constraints to successful business creation and operation.

Upgrading agro-industries and related technical skills

The rural populations of many developing countries suffer from poverty and hunger, have few employment possibilities and lack the basic necessities of life: water, food, clothing/footwear and shelter. Many crops are exported as raw materials with high post-harvest losses. Much of what agricultural produce is processed locally is wasted due to use of primitive and inefficient methods and equipment. There is weak technical support from institutions regarding machinery and process selection. UNIDO's response is to provide support to strengthen institutions and build up their capacities to serve the main agro-related industrial sectors (food processing, hides and skins tanning and leather products, textiles and garment making, wood processing and products, agromachinery and agro-technical production) as well as to establish technical advisory and extension services, common service facilities and repair and maintenance centres. This will be effected by a sequence of assessment and problem identification plus provision of technical inputs to carry out demonstrations and trials, prototype testing, establish pilot plants and then commercialize the results through information networking and publicity.

ABBREVIATIONS

A

ACC	Administrative Committee on Coordination
ASEAN	Association of Southeast Asian Nations

C

CAD	computer-aided design
CAM	computer-aided manufacturing
CDM	clean development mechanism
CEE	central European economies
CER	certified emissions reduction
CFC	chlorofluorocarbon
CIS	Commonwealth of Independent States
CSD	United Nations Commission on Sustainable Development
CSO	civil society organization
COP	Conference of the Parties to the Convention

D

DESA	United Nations Department for Economic and Social Affairs
DGB	Director-General's Bulletin

E

ECA	United Nations Economic Commission for Africa
ESID	environmentally sustainable industrial development

F

FAO	Food and Agriculture Organization of the United Nations
FOA	Field Operations and Administration Division

G

GEF	Global Environment Facility
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H

HABITAT	United Nations Conference on Human Settlements
HACCP	hazard analysis and critical control points

I

IAF	International Accreditation Forum
IDDA	Industrial Development Decade for Africa
IDF	Industrial Development Fund
ILO	International Labour Organization
IPC	Investment Promotion and Institutional Capacity-building Division
IMF	International Monetary Fund
IPS	Investment Promotion Service
ISO	International Organization for Standardization
ITC	International Trade Centre

J

JI	Joint Implementation (Article 6 of the Kyoto Protocol)
JIU	Joint Inspection Unit
JPO	Junior Professional Officer

L

LDC least developed country

N

NCPC national cleaner production centre
NGO non-governmental organization
NIS Newly Independent States of the former Soviet Union

O

OAU Organization of African Unity
ODS ozone-depleting substance
ODP ozone depletion potential
OECD Organisation for Economic Cooperation and Development
OIC Organization of the Islamic Conference

P

PPEP Pre-Peer Evaluation Process

Q

QSM quality, standardization and metrology

R

R and D research and development
RB regular budget
RENPAF Regional Network on Safe Pesticide Production and Information for Asia
and the Pacific
RP Regular Programme of Technical Cooperation

S

SENAI/CETIQT Technology Centre for the Chemical and Textile Industry under the
National Training Service for Industry (Brazil)
SADC Southern African Development Community
SES Sectoral Support and Environmental Sustainability Division
SME small and medium enterprise
SPX subcontracting and partnership exchange

T

TC technical cooperation
TQM total quality management

U

UCD UNIDO Country Director
UNCTAD United Nations Conference on trade and Development
UNDAF United Nations Development Assistance Framework
UNDP United Nations Development Programme
UNEP United Nations Environment Programme
UNESCO United Nations Educational, Scientific and Cultural Organization
UNFIP United Nations Fund for International Partnerships
UNICEF United Nations Children's Fund

W

WTO World Trade Organization