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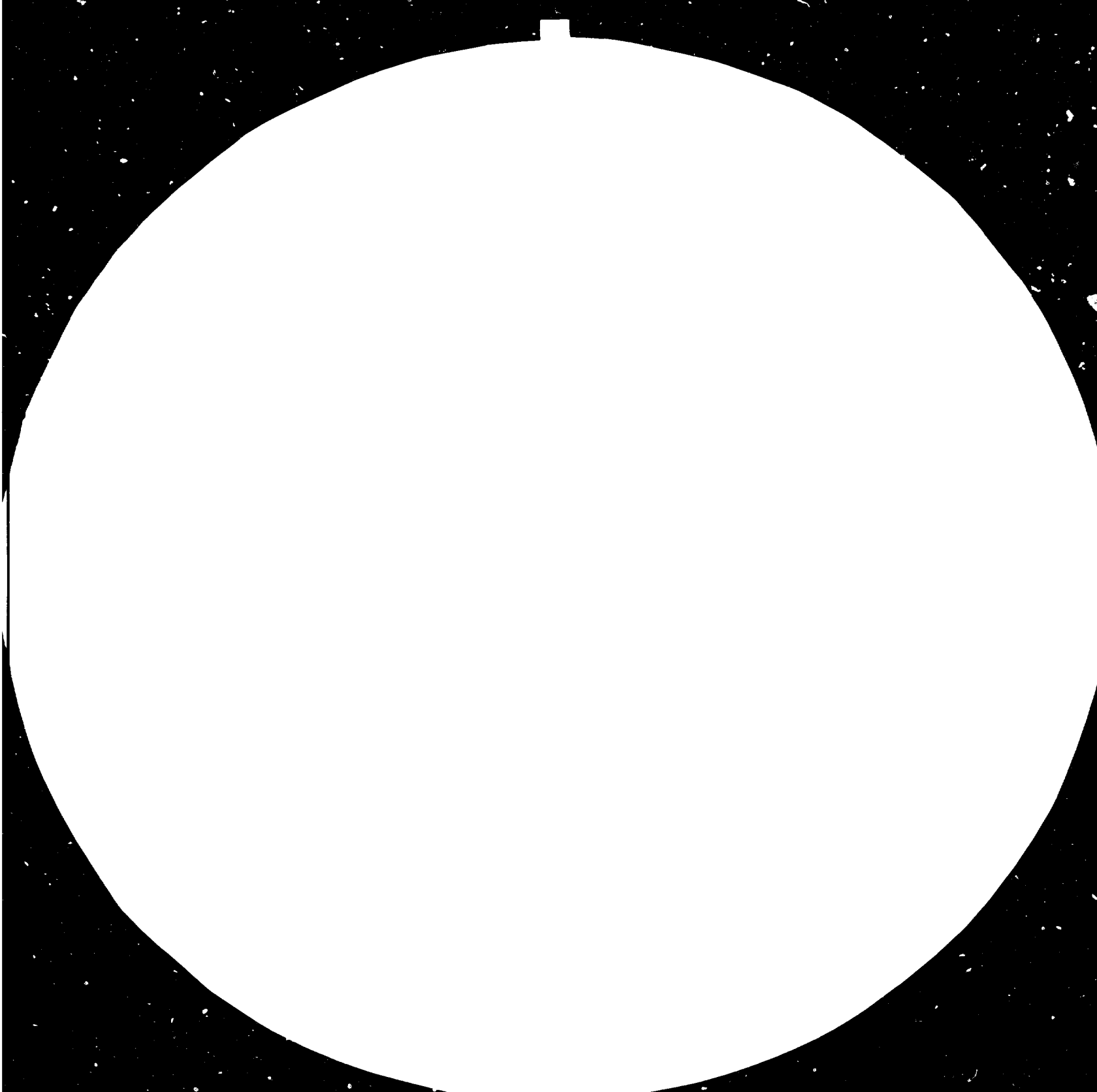
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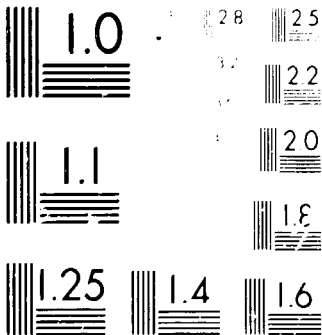
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12944

DP/ID/SER.A/473
15 July 1983
ENGLISH

ESTABLISHMENT OF THE INDUSTRIAL
ADVISORY UNIT
DP/UAE/79/003

UNITED ARAB EMIRATES

Technical report: Assistance to the
Directorate of Industry

Prepared for the Government of the United Arab Emirates by the United Nations
Industrial Development Organization, acting as executing
agency for the United Nations Development Programme

Based on the work of L. R. Shawkat,
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United Nations Industrial Development Organization
Vienna

V.83-58510

Explanatory notes

The monetary unit in the United Arab Emirates is the dirham (Dh). During the period covered by the report, the value of the dirham in relation to the United States dollar was between \$US 1 = Dh 16.26 and \$US 1 = Dh 17.94.

The term "billion" signifies a thousand million.

AGCC is the Arab Gulf Consultative Council.

ABSTRACT

Early in 1980, the Industrial Consultancy Committee of Industrial Affairs of the Government of the United Arab Emirates agreed on the need to establish an industrial advisory unit to co-ordinate the industrialization of the seven Emirates and to diversify the economy in areas other than oil. To this end assistance was sought from the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO). The project document for the project "Establishment of the Industrial Advisory Unit" (DP/UAE/79/003) was signed on 24 December 1981.

To assist the Ministry of Finance and Industry in achieving the objectives of the project, an expert was sent by UNIDO, executing agency for UNDP, to the United Arab Emirates from July 1982 to May 1983. His tasks were to train a national counterpart and, together with two other UNIDO experts, assist in creating a self-reliant advisory unit. Emphasis was placed on co-ordinating the project activities with the objectives of the five-year development plan envisaged for 1981-1985.

Owing to difficulties during the course of the project, the tasks of the expert had to be changed substantially. The expert and a part-time counterpart assessed a number of project proposals and gave advice and assistance to the Directorate of Industry of the Ministry of Finance and Industry and private industries.



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INTRODUCTION

Early in 1980, the Industrial Consultancy Committee of Industrial Affairs of the Government of the United Arab Emirates agreed on the need to establish an industrial advisory unit to co-ordinate the industrialization of the seven Emirates and to diversify the economy in areas other than oil. To this end assistance was sought from the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO). The project document for the project "Establishment of the Industrial Advisory Unit" (DP/UAE/79/003) was signed on 24 December 1981.

To assist the Ministry of Finance and Industry in achieving the ultimate objectives of the project, an expert was sent by UNIDO, executing agency for UNDP, to the United Arab Emirates from July 1982 to May 1983. His tasks were to train a national counterpart and, together with two other UNIDO experts, assist in creating a self-reliant advisory unit. Emphasis was placed on co-ordinating the project activities with the objectives of the five-year development plan envisaged for 1981-1985.

The project has fallen short of the original expectations owing to:

- (a) Difficulties in reaching consensus in the Industrial Consultancy Committee of Industrial Affairs, which has not met since May 1980;
- (b) The five-year development plan for 1981-1985 has not been officially adopted and approved by the Council of Ministers; thus hampering industrialization based on a comprehensive plan;
- (c) The absence of a defined strategy for allocating realistic financial resources to establish and up-grade government-controlled industries that would be the backbone of the envisaged industrialization efforts.

Thus, the expert limited his efforts to assistance in improving the Directorate of Industry (the body within the Ministry of Finance and Industry charged with industrialization), assessing the feasibility of new projects and advising private industries.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1. The high-level Industrial Consultancy Committee, which proposed the establishment of an industrial advisory unit and was therefore given the task of enacting Federal Law No. 1 of 1979 on the regulation of industrial affairs, ceased to function in May 1980.
2. The Directorate of Industry of the Ministry of Finance and Industry, which was subsequently appointed as the substantive organ to oversee and participate in the industrialization process, lacks:
 - (a) A well-defined industrial policy;
 - (b) The authority to co-ordinate and influence industrialization process;
 - (c) Financial resources to participate in federal industrialization and development programmes;
 - (d) A defined organizational structure with specific areas of responsibility.
3. The Directorate of Industry failed, in the early stages of the project, to secure national counterparts to work with the UNIDO Industrial Advisory Team so that an industrial advisory unit could be formed as a permanent institution within the Directorate.
4. The government contribution in kind of Dh 1,252,514 towards the project budget had not been included in the annual budget of the Ministry of Finance and Industry. The additional budget expenditure was made subject to separate approval by the Council of Ministers, which has not yet been given. This created more obstacles for the project.
5. As partial result of various shortcomings, the UNIDO team was split into individual expert components which resulted in the premature termination of the project and the repatriation of the three experts after expiration of their one-year contracts.

Recommendations

1. UNIDO should re-evaluate the project and its short- and long-term impact based on prevailing conditions.
2. Should the project be extended, the Government of the United Arab Emirates should be approached at the top level with a view to ensuring the effective support of the Government in assistance efforts geared towards federal industrialization programmes, including the Government's contribution in kind to the project.
3. Because the industrial sector in the United Arab Emirates occupies a place second only to the petroleum sector, the Government should extend all possible support and protection to present industrial sector (both private and public) and safeguard it as an important pillar in building a healthy national economy and national self-reliance. A uniform and balanced approach could pave the road for better planning, execution, management, product control, standardization and elimination of duplication and wastage.
4. The following steps should be taken to update and reorganize existing laws and institutions:
 - (a) Federal Law No. 1 of 1979 should be reviewed in line with the actual national industrial investments as well as those of Arab Gulf Consultative Council (AGCC);
 - (b) An independent Ministry of Industry should be created incorporating the present Directorate of Industry. It should have well-defined policies and strategies and should co-ordinate the interests of various industrial institutions and offices. The Ministry should be staffed with adequate professional and supporting staff and have the necessary equipment to be able to meet its obligations in the best possible manner;
 - (c) The Ministry should make provisions in its annual budget for participation in industrialization activities along with and complimentary to the private industrial sector.

I. INDUSTRIAL POLICY IN THE UNITED ARAB EMIRATES

The Ministry of Finance and Industry

The Industrial Consultancy Committee, which had pointed to the need for an industrial advisory unit in early 1980, was originally given the task of co-ordinating industrialization efforts in the United Arab Emirates. However, because the Committee had not met since May 1980, the Ministry of Finance and Industry was charged with this ambitious task.

The organization structure of the Ministry is described below.

Organizational structure

The Ministry of Finance and Industry is headed by a Minister, H. H. Sheik Hamdan bin-Rashid Al Maktoum, who represents the Ministry at the highest levels. He and the Under-Secretary of Finance and Industry maintain separate offices that are not located at the Ministry of Finance and Industry headquarters.

The Ministry is composed of two Directorates, each headed by an Assistant Under-Secretary who is a national of the United Arab Emirates.

The Directorate of Industry

As of June 1983, the Directorate of Industry staff consisted of:

- (a) Directorate of Industry at Abu Dhabi (head office) - 14 staff, 10 of whom have economic backgrounds. All 14 are foreign Arab nationals;
- (b) Department of Standardization and Metrology (an independent body created by Federal Law No. 14 of 1976 and presently attached to Directorate of Industry in Abu Dhabi) - 4 staff, one official is a national of the United Arab Emirates and the other 3 engineers are foreign Arab nationalities;
- (c) Dubai branch office of the Directorate - 5 staff, 3 are nationals and 2 are of other nationalities.

The Directorate of Industry is understaffed for the enormous task spear-heading industrial development; in addition, it lacks a defined organizational structure and the authority to deal with matters in hand.

Industrial policy

In 1972 the seven Emirates were united to form a federation; however, each Emirate has maintained a largely independent status and obeys its own laws. Federal laws, particularly in the industrial domaine, are often ignored.

Development objectives are also often pursued individually, and the Federal Directorate of Industry is not greatly involved in locating priorities and pre-feasibility and feasibility studies for projects. As industrialization is almost entirely in the private sector, most medium- and large-scale industries are subject to the rules and regulations of the respective Emirate and serve primarily the interests of that Emirate. They do not necessarily refer to the Federal Ministry of Finance and Industry in matters of national interest or seek economic and technical consultation on viability and profitability. Most projects use the services of qualified consulting firms and management teams from industrialized countries that are capable of coping with technical, economic and marketing aspects. Licensing is generally applied for after erection and completion of projects, thus rendering licensing procedures a mere formality.

The Ministry's assistance is usually sought when projects are experiencing economic and/or marketing difficulties; for example, projects may ask for protection from import competition through exemption from duties on raw material, equipment, semi-finished products etc.

There are two contradictory concepts prevailing in the United Arab Emirates. On the one hand, privately financed local industries are encouraged to expand import substitution and export. On the other hand, the government policy of the United Arab Emirates includes maintaining a free import market and encouraging of competition. Thus, there is a lack of adequate import levies, and the market is flooded with imported products that threaten the survival of local industries, although the quality of locally produced goods is frequently of equal or higher standard than that of imported ones. However, the Government totally lacks institutions and laboratories to carry

out inspections and tests for quality and standards of imported goods. This calls particularly for promoting and expanding the Directorate of Standardization and Metrology (now attached to the Directorate of Industry), with emphasis on establishing testing laboratories staffed with qualified personnel.

Financial resources

The Directorate of Industry is dependant on the Directorate of Finance for all expenditures and lacks a budget allocation of its own. All expenditures, including staff appointments, are subject to approval by the Directorate of Finance, and an independant industrial budget allocation is all but absent.

The draft five-year Development Plan (1981-1985) does not envisage the allocation of funds for industrialization purposes through government projects to be implemented by the Federal Directorate of Industry. Thus all expectations are linked to the private sector.

The newly formed semi-government industrial bank, with full autonomy and a capital of Dh 1 billion (with 51% government and 49% private shares), is designed to provide financial assistance through loans to the private sector. It is also expected to establish priorities, prepare and evaluate feasibility studies and supervise and control projects it finances. Although entirely geared towards the private sector, the bank's activities overlap with those of the Directorate of Industry.

UNIDO now has a new project ST/VAE/83/001 which provides an economist to assist the Emirates Industrial Bank, situated in Abu Dhabi.

II. PROJECT ACTIVITIES

Owing to the obstacles described above, the team of experts was not able to carry out its functions.

Owing to financial constraints, the UNIDO team lacked acceptable logistical support. The most serious handicap was the absence of transport because simple tours of industries throughout the seven Emirates could not be conducted.

Counterpart

An official (a chemical engineer) was detached from Standardization and Metrology Department to work with the expert on a part-time basis. Though the counterpart showed great willingness, desire and ability during the technical analysis and field work, he will most likely be obliged to abandon the advisory activities for which he was trained and revert to his original position after the departure of the UNIDO expert.

Between July 1982 and May 1983 the expert and counterpart:

- (a) Interviewed and selected professional candidates with the aim of increasing performance at the Directorate of Industry;
- (b) Undertook a study on the organizational structure and responsibility distribution in the Directorate of Industry and made proposals. The proposals were accepted but not implemented;
- (c) Gave ad hoc consultancy assistance and held advisory meetings with private entrepreneurs, on a continuous basis, at which the establishment of new projects and best ways and methods of achieving goals were discussed;
- (d) Assisted in organizing the regional conference of the AGCC on the cement industry, which led to the AGCC recommendation for unified regional cement production, marketing and standardization. If implemented, this will be an important step in industrialization and product control;
- (e) Assisted in evaluating pre-feasibility and feasibility study reports submitted by private entrepreneurs to the Directorate of Industry prior to issuance of a federal licensing certificate. The expert's opinion on such

studies has enabled the Directorate to distinguish between a successful and an unsuccessful project and to be able to advise entrepreneurs on the benefits and risks connected with projects.

Evaluations of pre-feasibility and feasibility studies undertaken during the period included were for projects to manufacture:

- Paper from waste paper
- Polystyrene plates and egg trays
- Exhaust pipes and mufflers for automobiles
- Disposable plastic medical syringes
- Safety matches
- Paper bags
- Plastic bags
- Glass bottles

The expert's time was fully taken up with the above activities. There was no opportunity to participate in any high-level industrialization programming (as there was no involvement of the Ministries in such activities) or to assist in industrial strategy and policy making.

The progress and achievements of the industrial advisory team, in general, and those of the expert, in particular, were directly linked with the status and activities of the Directorate of Industry, as the substantive organ for overseeing and participating in the industrialization process. Shortcomings in the Directorate reflected and affected the overall and individual performance of the UNIDO experts.

The expert endeavoured to obtain from the Ministry of Planning certain industrialization programming data for the envisaged five year development plan 1981-1985 or industrial data for the purpose of developing an industrial information data bank system. Such information could not be obtained, however.

In December 1982, after only four months of operation, the team was split into individual expert components. Each expert was assigned to work independently in different establishments and duty locations. Furthermore, the unspecified role and responsibility of the Ministry of Finance and Industry towards the project left each expert uncertain of his duties, and the experts' services were not utilized as they could have been.



