



Distr.  
GENERAL  
GC.11/8  
IDB.30/23  
24 May 2005

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

## GENERAL CONFERENCE

Eleventh session  
Vienna, 28 November-2 December 2005

## Industrial Development Board

Thirtieth session  
Vienna, 20-23 June 2005  
Item 10 of the provisional agenda

### UNIDO STRATEGIC LONG-TERM VISION

#### UNIDO strategic long-term vision statement

Report by the Director-General

Presents the strategic long-term vision statement for the next 10-15 years in compliance with resolution GC.10/Res.2. The present document incorporates the results of consultations with Member States.

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**I. INTRODUCTION**

1. At its tenth session the General Conference adopted resolution GC.10/Res.2, which invited the Director-General to develop a strategic long-term vision statement (10 to 15 years), possibly in time for adoption by the next General Conference. The resolution further called for this statement to address the issue of UNIDO's strategic contribution to the Millennium Development Goals (MDGs).

2. At the twenty-ninth session of the Industrial Development Board, held from 9 to 11 November 2004, the Director-General submitted a conference room paper (IDB.29/CRP.5) providing a preliminary draft for facilitating discussion and consultation on the subject. During December 2004-February 2005 the Director-General held a series of bilateral and multilateral meetings with several Permanent Representatives, who expressed their preliminary views on the subject. The draft was also circulated within the Secretariat for comments from staff. During 23-25 February 2005, consultations were held with all regional groups on the basis of this draft.

3. Following these consultations and incorporating the comments received from staff as well as the preliminary views expressed by the Permanent Representatives and regional groups, a revised strategic long-term vision statement was circulated to permanent missions on 15 April 2005. After that date, written comments on the draft were received from some regional groups. The draft statement was revised incorporating some of their comments, and this revised

document formed the basis of the final consultations with Member States held on 30 May 2005. The present document reflects the results of all these consultations held on the subject.

4. It has been felt that the strategic long-term vision statement (LTVS) should present a succinct, flexible and forward-looking vision for the future. While the present document is in the nature of a background note providing the rationale and substance of the strategic long-term vision, the draft decision in chapter IV contains, as its annex, the required LTVS covering the next 10 years.

**II. STRATEGIC LONG-TERM VISION OF UNIDO**

**A. Forces and scenarios shaping the vision**

5. The relevance of UNIDO's original mandate to support and promote industrial development of developing countries and countries with economies in transition continues to be valid, for industrial development still remains a precondition for long-term sustainable growth and social advancement. In this context, therefore, the desirable profile of UNIDO should always be that of a competent and effective professional organization, offering clearly-defined and sharply-focused services based on an assessment of its comparative strength, and contributing to sustainable industrial development in developing and transition economies and to the achievement of the relevant international development goals.

### **Forces**

6. The long-term vision of UNIDO's role during the next 10-15 years should match with this profile and will be shaped, inter alia, by the following forces:

(a) International development objectives, in particular the relevant MDGs, which will shape the development agenda over the next 10 years, both at the national and international levels;

(b) Developments in the world economy affecting the developing countries and transition economies, in particular the complex process of globalization and marginalization of poor countries that characterizes the international economy and the problems of environment and energy that impact on sustainable development;

(c) UNIDO's position in the multilateral development system and its role and mandate as refined and strengthened by past efforts at transformation, directions and guidelines received from Member States from time to time, including the *Business Plan on the Future Role and Functions of UNIDO and the Strategic Guidelines—Towards Improved UNIDO Programme Delivery*, and relevant international agreements;

(d) The Organization's corporate strategy with its emphasis on productivity enhancement driven by increased knowledge, improved skills and modern technology diffusion.

### **Scenarios**

7. *Poverty eradication* in developing countries will remain the most important development goal in the next decade. This is also recognized by the MDGs, which provide time-bound and quantified targets for addressing extreme poverty in many dimensions. In particular, halving, between 1990 and 2015, the proportion of people whose income is less than \$1 a day (income poverty) is the first of the MDGs (MDG-1). Building productive capacity and creating productive employment in the non-farm sector is one of the effective ways of achieving this goal.

8. Other dimensions of poverty—sometimes referred to as “non-income poverty”—as addressed by MDGs, include promotion of gender equality and empowerment of women (MDG-3), improving health and combating disease (MDGs-5 and -6), ensuring environmental sustainability (MDG-7), and developing global partnerships for development (MDG-8). Meeting MDGs is vital, not only for overall economic growth and development, but also for international and national security and stability, as emphasized by the High-Level Panel on Threats, Challenges and Change (2004). Although many countries are on track to achieve at least

some of the goals by the appointed year 2015, many others, especially in sub-Saharan Africa, are off-track. During the next 10 years, therefore, the international system's support to country-level processes have to be geared to put these countries and regions on the fast track in order to achieve the MDGs by the designated date.

9. Economic *globalization*, meaning the integration of national economies into the international economy through trade, foreign direct investment, short-term capital flows, movement of labour across nations and flow of knowledge and technology has been the dominant feature of the world economy for the past 20 years. The process is somewhat irreversible and is bound to continue in the coming decades. The national societies and the world community have to deal with its consequences and manage the process so as to get its benefits while minimizing the downside risks.

10. Globalization and the associated liberalization of investment and trade regimes alone do not guarantee that much of the developing world would be able to benefit from the global markets and achieve rapid economic growth. Only a few developing countries have succeeded in penetrating such markets, while a disturbingly large number of others, especially the least developed countries (LDCs) have not. No doubt, in this wave of globalization, some developing countries in Asia and Latin America (such as Brazil, China, India and Mexico) have increased their ratio of trade to income and many of these countries now no longer export only raw materials, but also finished products and services. Their real per capita income and annual per capita income growth have increased and as a result of strong economic growth in Asia, global income distribution has improved and the number of people living in absolute poverty has declined.

11. Yet not all regions and countries have benefited from globalization. There are still nearly 1.1 billion people—about one-fifth of the world population—who continue to live in absolute poverty, with incomes less than \$1 a day. In many countries, sustainable economic and social progress has not taken place. In most of these countries, trade has decreased in the last 20 years and on average economic growth has not kept pace with population growth. The situation in Africa is particularly serious, because it is aggravated by AIDS and other endemic diseases.

12. International efforts in the next 10-15 years will need to focus on helping the *marginalized countries* to join the mainstream of the global economy through participation in international trade and foreign direct investment flows. Many of these countries have not benefited from globalization, largely because they do not have the capacity to participate in it. These countries—will need assistance in developing the

needed capacities—both productive and trade-related capabilities. In the past years efforts have been made to address the needs and handicaps of the LDCs, the world's smallest and poorest countries in the trading system. These efforts need to be continued and perhaps accelerated.

13. The world also faces a number of *environmental challenges* that threaten the global commons. These include climate change, biodiversity loss, the pollution of international waters and depletion of the ozone layer. Industrial energy, which is one of the essential requirements for attaining economic and social development and improving the quality of human life, also poses particular challenges. The production, generation, distribution and use of energy are major sources of global pollution and waste, not least because they release substantial amounts of greenhouse gas pollutants, which pose a critical threat to the global environment through their potential for generating climate change. Meeting these challenges will remain a major item on the global development agenda in the years to come.

14. The world has already seen an environmental success story in the Montreal Protocol of 1987, which sought to solve the problem of chlorofluorocarbon emissions that reduce ozone concentrations in the upper atmosphere. UNIDO has made a significant contribution in this area. The international community has begun seeking solutions to other challenges through international agreements such as the Convention on Biological Diversity, the Framework Convention on Climate Change and the Kyoto Protocol, and through institutional arrangements such as the Global Environment Facility (GEF). These efforts will, no doubt, continue in the coming years.

15. During the next 10-15 years Africa, particularly *sub-Saharan Africa*, will remain the focus of international development efforts, for Africa's development crisis is somewhat unique. Sub-Saharan Africa is the only region with negative growth in per capita income during the decades 1980-2000. This region saw a rise in absolute poverty during 1990-2001, and suffers from continuing food insecurity, prevalence of life-threatening diseases such as malaria, tuberculosis and AIDS, high child and maternal mortality and a widespread shortfall for most of the MDGs. The poverty trap in which sub-Saharan Africa is stuck has been explained by a number of structural factors: low productivity in agriculture and other production activities, small size of the market and very high transport costs, a very high disease burden, adverse geopolitics and very slow diffusion of technology from the outside world. Ending the poverty trap in Africa would require combined, comprehensive efforts of the people and Governments of these countries and the international community.

16. Similarly, international assistance is also needed by the *societies emerging from crisis situations* resulting from natural or man-made disasters, including violent conflicts. Threats to people are high in these situations and human security becomes a major problem. The countries affected by crisis are then faced with social and economic dislocation, which reduces the productive capacity of the economy and the ability of the affected people to generate sustainable livelihoods. These situations would arise from time to time and external assistance would have to be provided, as needed.

17. The scenarios outlined above will determine the contours of UNIDO's long-term vision, while its assigned position in the international development architecture and the comparative strengths developed over the past years would shape its development agenda for the future. In the United Nations multilateral development system *UNIDO's niche area* is in providing support and assistance to the developing countries and countries with economies in transition in their industrialization efforts. Over the years it has developed services, capacities, skills, working methods and approaches that have been refined and enriched by *directions and guidelines received from Member States* and the provisions of various *relevant international agreements*. A process of re-specialization and professionalization has been carried out as part of UNIDO's transformation process over the past seven years. As a result, the services offered and the activities undertaken have been continuously improved in order to make them much more focused and relevant to the needs of the beneficiaries. This process will no doubt continue in the future as well.

18. The Organization's *corporate strategy* will also influence its long-term vision and the activities that would be undertaken to translate that vision into reality. The development experience of both the developed and successful developing countries shows that productivity plays a crucial role in economic growth and increase in gross domestic product (GDP) per capita. Countries adopting the high-productivity path in their production and service activities become richer compared to those that are stuck in low-productivity activities. The corporate strategy of UNIDO therefore emphasizes productivity enhancement, driven by knowledge, skills and technology for economic and social advance; and it enjoins the Organization to focus on productivity enhancement activities that would support the efforts of the developing countries and the countries with economies in transition to participate in the world production system by helping them to raise productivity and develop competitive economies.

#### **B. Focus areas and cross-cutting approaches**

19. The mix of considerations outlined above determine the selection of a few sharply defined areas of

focus for the Organization's work during the next 10-15 years. The small size of the Organization and the limited availability of resources for its technical work are additional reasons for focusing on the following three areas:

- (a) Poverty alleviation through productive activities in the non-farm sector;
- (b) Trade capacity-building; and
- (c) Environment and energy.

20. A few cross-cutting approaches and methods would also be applied in carrying out both operational (technical assistance) and global forum (analysis and discussion) activities in these areas of emphasis.

21. These areas and the methods flow from and are closely related to the prescriptions contained in the Organization's Business Plan and Strategic Guidelines referred to earlier.

#### ***Focus areas***

- (a) *Poverty alleviation through productive activities in the non-farm sector*

22. Poverty reduction and hence the achievement of MDG-1 in developing countries and transition economies will basically be determined by the rate at which the average income of the poor rises over a period of time. Accelerating growth and making it sustained over a long period of time, and ensuring that the poor participate in that growth through income-generating activities, is fundamental to poverty reduction.

23. In many developing countries, and particularly in African LDCs, low-productivity agriculture is the dominant occupation, employing more than 50 per cent of the working population. The remedy lies in moving from low-productivity to high-productivity activities, from agriculture to industry and services which tend to have higher levels of productivity than agriculture. Increases in non-farm activity in rural areas and the diversion of excess workers from agriculture have a strong impact on pro-poor growth since, while contributing to an increase in agricultural productivity, they also provide the opportunity to diversify the sources of, and therefore maximize, household income. In developing countries, especially in Africa, therefore, the creation of non-farm employment and incomes in rural areas (along with increasing agricultural productivity) and formal employment in manufacturing and services are important determinants of pro-poor growth and hence, of poverty alleviation. These are activities at the core of UNIDO's mandate: assisting developing countries and transition economies in their industrialization efforts through the creation and

development of production capacities in the non-farm sectors.

24. In market economies, these economic activities—especially the creation and operation of businesses and productive capacities in manufacturing and services—involve risk-taking and private initiative for profits and incomes. It is the motivation not only of large national and multinational companies, but also of small and rural enterprises, individuals and households, when they sell their labour or produce goods and services. All these together constitute the private sector, which is the major contributor to GDP and employment and is, therefore, the main engine of growth in a modern economy. Savings, investment, innovation and technology diffusion are undertaken by private individuals, entrepreneurs, companies, corporations and civil society organizations. The private sector can thus directly alleviate poverty by building local productive capacities, creating jobs, improving productivity and increasing the incomes of the poor. Entrepreneurship plays a critical role in these activities.

25. Moreover, most economic activity is still performed on a small scale in almost all countries, especially in the developing economies, and most industries operate, if not at the level of town and neighbourhood, then on a national basis. Entrepreneurship flourishes most effectively in small and medium-sized enterprises (SMEs) with significant potential for growth and innovation. In addition, micro enterprises, mostly in the informal sector, also play an important role in poverty reduction because they often provide the only opportunity in developing countries for millions of poor people, including women entrepreneurs, to be employed and earn incomes.

26. Therefore, it is clear that the focus of UNIDO services should be on assisting the domestic private sector in developing countries and transition economies in the creation of productive capacities in the non-farm sector—in organizing and managing businesses, upgrading technology, meeting financial requirements, gaining access to domestic markets and international trade and realizing various collective efficiency gains through public-private partnerships, developing clusters and networks and other institutional modalities. This will be the strategic contribution of UNIDO to the achievement of the MDGs, and especially of the first and the most important one, the eradication of poverty.

27. In this context, the emphasis on the support and promotion of the development of agro- and food-processing industries will continue in view of their importance in the agriculture-based economies of Africa and the LDCs. Their growth and modernization, apart from enhancing the productivity of the industrial sectors in these countries, would also contribute to the achievement of the MDG of poverty alleviation.

28. Along with entrepreneurship, investment plays a central role in growth and poverty reduction, by increasing the productive capacity of the economy. Assistance in the creation of a conducive investment climate is, therefore, of crucial importance in the task of poverty alleviation. A good investment climate provides incentives for all firms—small, medium and large, as well as micro enterprises—to invest productively, create jobs, expand and introduce new technologies that can serve to increase the productivity of other factors of production. While in the developing countries the bulk of private investment is domestic in nature, foreign direct investment (FDI) is also important and it brings, apart from financial resources, improved managerial know-how, modern technology, access to international markets, and a corporate culture of efficiency and competitiveness. Perhaps the greater contribution of FDI is through innovation, transfer of knowledge and skills, and productivity. Its contribution to growth is likely to be higher if the knowledge of better technology it brings can be spread to domestic businesses through business linkages. In this sense FDI can be a driver for the growth of local business and can improve the overall investment climate. Specific UNIDO services designed to help the developing countries which are relatively marginalized to improve their investment climate through appropriate strategies, policies and institutional mechanisms aimed at tackling the existing government and market failures would help in promoting investment and growth for poverty alleviation in these economies.

(b) *Trade capacity-building*

29. The focus of UNIDO activities on trade capacity-building in developing countries and transition economies arises from the concern to help these countries join the mainstream of the global economy through participation in international trade. There is substantial evidence to suggest that greater trade integration is associated with higher rates of economic growth needed to eradicate poverty. Besides, for developing countries, trade is the primary vehicle for realizing the benefits of globalization. It exposes domestic firms to competition both inside and outside the country, and also to the best practices of foreign firms and to the demands of discerning customers. All this encourages greater efficiency, boosting productivity as well.

30. As explained earlier, the main bottlenecks that developing countries, particularly LDCs, face in their participation in international trade are the lack of necessary production and export capabilities (or supply-side capabilities) and the in-built cumulative deficit in their capacity to conform to the market requirements of the developed countries.

31. These bottlenecks have two major dimensions that need to be addressed:

(a) Enterprises in developing countries, especially SMEs, in most cases do not have the production capacity to produce quality products or surpluses for the competitive export of such products in order to take advantage of international trade opportunities;

(b) In addition, most developing countries presently lack the capacity to meet conformity requirements, and their potential export products are often unable to comply with technical quality standards, health and safety requirements and regulations set by the importing markets. In many cases, notably in LDCs, the required infrastructure relating to metrology, standards, testing and quality is lacking and even if services exist, they are usually not recognized internationally. These countries need to reform or upgrade their standard-setting regimes, establish efficient testing, certification and laboratory accreditation mechanisms to conform to the World Trade Organization (WTO) agreements on technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) measures, and to defend themselves effectively in standard-setting bodies.

32. Developing countries need technical assistance to overcome these deficiencies in order to have enhanced market access. The need for such assistance has been recognized internationally—in the WTO Doha Development Agenda (2001) and the New Partnership for Africa's Development (NEPAD). Even the TBT and SPS agreements negotiated under the Uruguay Round explicitly state that the developed country members of WTO should assist the developing country members in addressing these problems.

33. UNIDO services must address these deficiencies. The Organization has already attempted to cluster its specific interventions in this field around the two key areas in an effective and integrated manner. In addition to its normal activities in this area, it launched a specific thematic initiative on trade capacity-building at the International Conference on Financing for Development at Monterrey, Mexico, in March 2002. Another significant step forward was taken in September 2003, when UNIDO and WTO signed a memorandum of understanding on the sidelines of the fifth session of the WTO Ministerial Conference at Cancún, Mexico. Both organizations agreed to undertake joint programmes and projects for trade capacity-building and associated activities, with UNIDO's contribution focusing on strengthening supply-side capacities (including conformity with technical standards and requirements) of developing countries and WTO dealing with the development of their capacities to engage effectively in trade negotiations and further implementation of the WTO agreements. A number of technical cooperation projects have since been taken for joint implementation.

34. UNIDO will continue and further advance its activities in this area in the coming years.

(c) *Environment and energy*

35. The third area of focus concerns environment and energy, where UNIDO needs to undertake specific activities in order to meet the identified needs of developing countries and transition economies. These activities should aim at promoting sustainable industrial development, while at the same time contributing to the attainment of environmental sustainability, an important MDG.

36. A reference was made earlier to the significant role and achievements of UNIDO under the 1987 Montreal Protocol on Substances That Deplete the Ozone Layer. There have been other multilateral agreements on environmental issues such as the Stockholm Convention on Persistent Organic Pollutants (POPs), the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity and the Kyoto Protocol, and financial mechanisms such as the GEF. UNIDO will continue to make major contributions towards the successful implementation of these agreements.

37. At the heart of the major UNIDO programmes and services related to sustainable industrial development and environment is technology. Technology development covers both environmental abatement activities and completely new industrial production processes that reduce the burden on the environment. Initially, in the process of industrialization, the emphasis was on environmental abatement through end-of-pipe pollution control. Where this is still the prevailing practice, emphasis must shift to the use of new and advanced technologies that are more efficient in the use of energy and materials and produce less pollution and waste.

38. But in the long run the focus of UNIDO activities in this area should be to help bring about fundamental changes in both product design and technology, which provide for resource sustainability by closing the loops of natural resources in our economies. Basically, resource sustainability involves four steps:

(a) Move towards circular flows of materials that are used and recycled over and over again;

(b) Continue reducing the amount of materials and energy used through greater efficiency and eliminating hazardous and toxic materials;

(c) Change emphasis from selling products to supplying services;

(d) Shift from non-renewable to renewable sources of energy.

39. UNIDO has traditionally used the National Cleaner Production Centres (NCPCs) for the diffusion of quality and productivity-enhancing environmentally sound technologies (ESTs) and for promoting the adoption of environmentally sustainable cleaner production methodologies. These NCPCs can be used to demonstrate the utility and effectiveness of the technology and practices relating to resource sustainability in specific industrial subsectors (e.g. textiles) in selected developing countries.

40. In the area of energy, UNIDO's activities and services should relate to the promotion of energy efficiency measures and the expanded use of renewable energy sources (biomass, wind, solar, small-hydro and geothermal) with a view to contributing to the sustainable development goals of the international community. This would involve assisting in capacity-building in, and transfer of, technology/technical know-how to developing countries and countries with economies in transition in the area of industrial energy efficiency. The Organization's technical services will also seek to promote the productive use of renewable energy sources and clean energy, especially in rural areas, in order to contribute to sustainable development objectives, including poverty alleviation.

***Cross-cutting approaches***

41. A number of cross-cutting approaches will characterize UNIDO activities in the focus areas. Chief among them is private sector development, to which a reference has already been made. UNIDO's activities and interventions in all the focus areas will be in partnership with the private sector—private individuals, enterprises, industry associations and civil society organizations. In September 2004 UNIDO concluded an agreement with UNDP to develop and implement a joint programme in the area of private sector development based on the recommendations of the United Nations Commission on the Private Sector and Development. The implementation of this programme through specific technical assistance and associated activities, including seminars and workshops and the promotion of public-private partnerships, will be a significant contribution in this regard.

42. Secondly, as a United Nations specialized agency, UNIDO has a dual role: it provides technical cooperation services (operational function) and it is also expected to acquire, analyse and disseminate knowledge about industrial development processes and initiate/conduct debates and discussions on industrial development and related issues in order to influence the development agenda in this area (global forum function). The Organization has to strive for a proper mix of these two categories of functions, which complement each other.

43. Also, in the context of a market-oriented, globalizing international environment, the provision of global public goods offers justification and a rationale for the operation of a United Nations specialized agency. In the case of UNIDO, these would relate to the area of industrial development. More specifically, the creation, transformation and management of knowledge on all matters related to industry can be considered a global public good, which is the legitimate concern of UNIDO. For example, there is knowledge to be created on the industrial development experience (policies, legislation, instruments, etc.) of successful developed and developing countries, helping countries with the difficult task of sifting through these experiences, extracting relevant knowledge, experimenting with it and adapting it to local conditions. In addition, there is the function of managing knowledge through documentation, sharing and exchange with other organizations worldwide and using the latest developments in information technology for such management. UNIDO will have to continue and even improve these operations, which include the provision of information, skills and technology in the coming years as its excellence as a knowledge organization will also reinforce its effectiveness in the technical assistance delivery area.

44. Closely allied to this is the need to promote new and emerging technologies which are bound to have a powerful effect on economic development in the years to come. UNIDO, therefore, must take appropriate initiatives, earmark resources and undertake suitable activities so as to mainstream these new technologies as tools of industrial development for increasing productivity and economic growth.

45. The mix of competencies and services available in UNIDO will be used to address special problems of the societies emerging from crisis situations resulting from natural or man-made disasters. Human security is a vital element in these situations and this will guide the Organization's activities in this area. Basically, in the phase of rehabilitation and reconstruction, UNIDO will provide services for enterprise rehabilitation in key industrial areas, promoting income-generating activities for specific groups of affected people, supporting institutional capacity-building and contributing to the rehabilitation of industrial infrastructure.

46. It is clear that in order to undertake the relevant operational and global forum activities in a professional manner and improve the technical excellence of the Organization, the professional expertise and technical skills of the staff in their respective fields must be continuously updated through an appropriate mix of internal and external recruitment, training, seminars and workshops. In other words, the process of re-specialization and professionalization that has been a feature of UNIDO's transformation in the past seven years must also be continued in the future.

47. In order to achieve economy-wide productivity enhancement in the developing countries, it is essential to create and strengthen a web of interactions between economic agents, markets and institutions that enable these countries to draw effectively on international trade and investment flows. In that context UNIDO, in order to function effectively, will need to build partnerships with the organizations of the private sector and of civil society, in particular industry associations and development-oriented NGOs (non-governmental organizations) for undertaking its activities.

48. Lastly, the Organization's technical assistance delivery in the past years has taken a somewhat skewed character with the services under the multilateral environmental agreements accounting for more than 50 per cent of the total technical cooperation portfolio. Although these are essential services and should be continued, it is necessary to redress the imbalance by increasing UNIDO activities that address core industrialization issues such as investment and technology promotion, small enterprise development, trade capacity-building, agro- and food-processing industries, energy efficiency and renewable energy.

### **C. Regional dimensions**

49. There will be a number of regional dimensions to UNIDO's work in the coming years.

#### ***Africa***

50. Given its unique development problems, sub-Saharan Africa will receive special attention in the Organization's operational and global forum activities. UNIDO has already developed the African Productive Capacity Initiative (APCI), which has been approved as the industrial component of NEPAD. The *Industrial Development Report 2004* comprehensively analysed Africa's development needs, and the Organization's integrated programmes and technical assistance activities in Africa have sought to contribute to poverty alleviation through industrial and economic development. These activities will be strengthened in the future as well. At the same time, as an international organization with worldwide membership, UNIDO will also continue to address the industrial development problems of the other regions (Latin America and the Caribbean, Northern Africa, Asia, and the countries with economies in transition) and cater to their differentiated needs.

#### ***Decentralization***

51. Effective decentralization of functions and activities to the field has always been an important organizational goal of UNIDO. This is necessary as increasingly programming, implementation and funding decisions are being taken at the country level. A number



of initiatives have been taken during the past seven years, but the Organization's efforts at effective decentralization have not been fully successful so far due to the limited availability of financial and human resources.

52. In order to overcome this problem and extend the coverage of its field offices, UNIDO entered into a Cooperation Agreement with UNDP in September 2004. This Agreement envisages strengthening UNIDO's presence in the field in up to 80 countries (from the present level of approximately 30).

53. Apart from meeting the operational goals of UNIDO, extension of its field coverage would assist the Organization in effectively participating in the coordinated and goal-based formulation of the strategies for technical assistance provided by the United Nations agencies through the United Nations Development Assistance Framework and Common Country Assessments (UNDAF/CCA) and the MDG-based poverty-reduction strategy papers (PRSPs).

54. All these would necessitate the further strengthening of decentralization measures during the next 10-15 years.

#### ***South-South cooperation***

55. Promotion of South-South cooperation will be an important feature of UNIDO's work in the coming years. This will complement its traditional efforts at facilitating transfer of resources and technology from the developed to the developing countries. Through appropriate mechanisms for strengthening South-South cooperation the Organization would enable the less developed developing countries to benefit from the development experiences of the more successful emerging economies.

#### **D. Finance for development**

56. Securing adequate financial resources for its technical assistance and global forum activities and increasing their levels over the next 10-15 years must occupy an important place in UNIDO's long-term vision. Broadly, UNIDO's technical work is financed from three sources: the Industrial Development Fund (IDF) and trust funds, funds under the multilateral environmental agreements (multilateral funds) and the Regular Programme for Technical Cooperation (RPTC) component of the regular budget. The largest of these, the multilateral funds, constitute nearly 50 per cent of the resources available annually. The IDF and trust funds, which are in the nature of official development assistance (ODA), account for about 40 per cent of these (annual) resources. These two sources, therefore, must receive major attention in the Organization's strategy to

increase its funding in the coming years. UNIDO has already initiated steps to formulate project proposals in the traditional areas of industrial development, which can access funds available under the multilateral environmental agreements. More such innovative proposals will need to be formulated, keeping in view the requirements of existing and new financing mechanisms in this area.

57. It is expected that over the coming years the volume of ODA or aid will increase moderately, but significantly rising from about \$78 billion in 2004 to \$115 billion in 2010. This may be the result of a variety of reasons—the drive to achieve the MDGs, the pressure of world opinion for the wealthy nations to dedicate 0.7 per cent of their GDP to fight poverty, the recently reasserted commitment by OECD countries to the Millennium Declaration and the Monterrey Consensus on Development by significantly increasing the volume of their collective aid, and the realization, following the events of 11 September 2001, that world security and development are closely linked. There are also proposals to put in place new and innovative sources of development finance (such as global environmental taxes and an international financial facility) for attaining the MDGs and fighting poverty. It is also anticipated that aid to countries in sub-Saharan Africa will increase as a proportion of total aid, and that more of this will be provided in a programmatic form.

58. While UNIDO will no doubt make an effort to get a fair share of the increase in development assistance, there are a few issues that need to be kept in view while designing the Organization's strategy in this area. Firstly, the share of assistance channelled through international agencies dealing with economic development issues may not increase very much. Secondly, there is an increasing concern among the donor and recipient countries about duplication and lack of harmonization among the technical agencies in the field and also of inadequate alignment with host country priorities and systems. Therefore, UNIDO has to identify its unique niche and its comparative advantage and position itself suitably in the evolving United Nations system architecture in the field, while at the same time aligning its activities to the locally-determined development priorities. Also, in order to remain competitive in the business of development assistance, it has to refine and streamline its methods of work so as to take care of the concerns of both the donor and recipient countries regarding the tendencies towards multiple missions, overuse of consultants and high transaction or support costs, which result from the current approaches adopted by the multilateral agencies. UNIDO is already trying to address some of these concerns through the integrated programmes and its joint programmes with other agencies. This process needs to be accelerated in the years to come.

### **E. UNIDO in the multilateral system**

59. The role of UNIDO in promoting sustainable development has to be performed in a multilateral context. This means that there has to be synergy, coordination and harmony between its activities and those of other multilateral agencies in the field of economic development. In fact, it is clear that the gains achieved by UNIDO through internal restructuring and programmatic reform would be limited by the systemic constraints of the multilateral system, particularly with regard to the economic development functions of the relevant United Nations agencies. In order to overcome this problem, UNIDO has been entering into cooperative arrangements with other international organizations (such as UNCTAD, UNDP and WTO) for specific areas of work. These will be strengthened and new partnership arrangements will be made in the future.

60. Although the United Nations funds, programmes and specialized agencies have over the past few decades developed unique capabilities in different areas, including that of economic development, an unfortunate side effect has been the lack of system-wide coherence resulting in duplication and overlapping. The resources, as well as knowledge, experience and skills, are too thinly spread in the system, which suffers from lack of focus, absence of coordination and shortage of funds. It is, therefore, necessary to organize United Nations development work in a coordinated way, seek to achieve a critical mass in the relevant areas and accumulate and develop knowledge in the identified lines of thought, sharpening the focus and deepening the substance of interventions in the economic development field. With this end in view, the Director-General has formulated a proposal for an improved voluntary coordination mechanism, which has been discussed with the United Nations Secretary-General and the executive heads of the United Nations agencies. The proposal has the following salient features:

(a) Producing an agreed, system-wide, MDG-based business plan or common agenda for action;

(b) Defining, on the basis of the concept of issue leadership, the tasks to be performed by different agencies, based on their competencies, expertise and resources;

(c) Reviewing, monitoring and reporting on the implementation of the business plan and rewarding the various United Nations bodies contributing to the common agenda;

(d) Identifying the areas of work and the menu of topics (such as market efficiency, knowledge and

environment) needed to strengthen the supply of global public goods and for field-level operations.

61. The proposal is now being considered actively by the United Nations High-Level Committee on Programmes for implementation.

62. It will be necessary for UNIDO to pursue in the coming years these efforts for system-wide coordination, which will also enhance the effectiveness of its own operations.

### **III. CONCLUSIONS**

63. In the ultimate analysis UNIDO will be judged not by the extent of its reforms, but by the relevance and quality of its services and the level of professional expertise that is reflected in these services. In the knowledge society that is already upon us, an organization such as UNIDO can survive and prosper only if it transforms itself into a knowledge organization in its chosen field. Knowledge, unlike traditional skills (which change very slowly), rapidly becomes obsolete. Therefore, knowledge workers have to constantly update themselves and their professional expertise through continuous experiment, innovation, research and education in their respective areas of work.

64. Moreover, in a market-oriented, globalizing world economic environment where all kinds of products and services are competitively available and easily accessible (Internet, e-commerce), the ultimate test for an organization such as UNIDO is whether it can make any distinctive contribution based on its unique and ever-expanding knowledge, professional expertise and comparative advantage. In this sense, the long-term vision must aim at establishing a "brand-equity" for UNIDO in the competitive world of development assistance. The proposal to sharpen the Organization's focus on a few areas and to deepen the substance of its support services by developing high-level expertise and centres of excellence in these areas is designed to achieve this goal.

### **IV. ACTION REQUIRED OF THE BOARD**

65. The Industrial Development Board may wish to recommend to the General Conference the adoption of the following draft resolution:

*"The General Conference,*

*"Recalling* General Conference resolution GC.10/Res.2 inviting the Director-General to develop a strategic long-term vision statement in time for its adoption by the next General Conference,

“*Taking note* of the information provided in document IDB.30/23,

“1. *Adopts* the strategic long-term vision statement for UNIDO covering the period 2005-2015, as contained in the annex to the present resolution;

“2. *Requests* the Director-General to take the strategic long-term vision statement into account when formulating and implementing the medium-term programme frameworks, the programmes and budgets and other operational programmes during the period under coverage.”

## Annex

### STRATEGIC LONG-TERM VISION STATEMENT (2005-2015)

#### Introduction

In the context of the changing global economic environment and emerging needs of developing countries and countries with economies in transition, the United Nations Industrial Development Organization (UNIDO) must profile itself as a competent, effective, and professional organization, contributing to relevant international development objectives and to sustainable industrial development in these countries. The Organization should internalize this profile in its long-term vision.

The international development objectives, in particular the Millennium Development Goals (MDGs), and the developments in the world economy, especially the complex process of economic globalization and marginalization of poor countries, will together be the major driving forces determining the future scenarios. Added to these are the problems of environment and energy which impact on industrial development.

The scenarios—possible developments, opportunities and problems—that UNIDO may have to deal with comprise the following:

- Poverty alleviation in the context of MDGs will remain the most important development goal in the next 10 years;
- Economic globalization will need to be managed so as to realize its benefits while at the same time minimizing the downside risks, including marginalization of poor countries;
- Environment and energy challenges will need to be met;
- Sub-Saharan Africa will remain the focus of international development efforts due to the region's unique development challenges;
- International assistance will be needed by societies emerging from crisis situations resulting from man-made and/or natural disasters.

UNIDO will need to react to these scenarios on the basis of its position and mandate in the international development architecture, as refined and strengthened by the past efforts at transformation, relevant international agreements, its corporate strategy and the guidelines and directions given by Member States from time to time, including the *Business Plan on the Future Role and Functions of UNIDO* and the *Strategic*

*Guidelines Towards Improved UNIDO Programme Delivery*. UNIDO has to establish a niche area for itself in the international development architecture and ensure value addition through its distinctive services.

#### Areas of focus

In order to deal with the future scenarios the activities of UNIDO will need to focus on the following three areas:

##### (A) *Poverty alleviation through productive activities in the non-farm sector*

The activities and programmes under this group will include the following:

- (a) Entrepreneurship (including women's entrepreneurship) development;
- (b) Development of the domestic private sector;
- (c) Industrial policy advice based on applied research;
- (d) Institutional capacity-building at the country and sectoral levels;
- (e) Small enterprise and business development;
- (f) Informal sector development, including microenterprises;
- (g) Development of agro-industries;
- (h) Assistance in the creation of conducive investment climate;
- (i) Assistance in the diffusion and transfer of modern and relevant technologies.

##### (B) *Trade capacity-building*

The activities and programmes under this category will seek to assist the developing countries and transition-economies to build and develop both production and trade-related capacities, including the capacity to conform to the market requirements of the developed countries. These will include:

- (a) Assistance in building and developing production and export capacities in quality products and for conforming with technical standard requirements;

(b) Programmes for the development of infrastructure relating to metrology, standards, testing and quality.

*(C) Environment and energy*

The activities under this group will aim at promoting sustainable industrial development while at the same time contributing to the attainment of environmental sustainability, an important MDG. The activities would include:

(a) Programmes on environmentally sustainable industrial development strategies and policies;

(b) Promotion of advanced technologies that are more efficient in the use of energy and materials and produce less pollution and waste;

(c) Support programmes involving changes in the product design and technology which provide for resource sustainability by closing the loops of natural resources in the economies;

(d) Programmes for promotion of energy efficiency through improvements in and transfer of technology/technical know-how;

(e) Programmes for promoting renewable sources of energy, particularly in remote rural areas;

(f) Assistance and participation in the implementation of international environmental agreements.

**Cross-cutting approaches**

A number of cross-cutting approaches will characterize the Organization's activities in the identified focus areas:

- A proper mix of operational activities and global forum functions involving analysis, dissemination of knowledge and discussions of industrial development issues;
- Provision of international public goods such as the creation, transformation and management of knowledge on, and best practices in such areas as industrial development, technology, industrial statistics, skills, etc.;
- Promotion of new and emerging technologies which are bound to have considerable effects on economic development in the years to come;
- Emphasis on the human security concept through activities for the rehabilitation and reconstruction of industrial infrastructure in post-crisis societies;

- Continuous improvement in the technical expertise and professional competence of UNIDO personnel;

- Promotion of partnerships with the organizations of the private sector and of civil society;

- Establishment of a balanced portfolio of activities relating to implementation of the environmental agreements and traditional industrial development functions in areas such as investment and technology promotion, small enterprise development and trade capacity-building.

**Regional dimensions**

There will be a number of regional dimensions to UNIDO's work in the coming years.

Given its unique development problems, Sub-Saharan Africa will receive special attention in the Organization's technical cooperation and global forum activities. At the same time the differentiated needs of the other regions—Latin America and the Caribbean, Northern Africa, Asia, and countries with economies in transition—will also be attended to.

Effective decentralization of the Organization's functions and activities to the field will be continued and strengthened through various measures including networking, arrangements with UNDP and other development agencies.

Promotion of South-South cooperation will be an important feature of UNIDO's work in the coming years.

**Finance for development**

UNIDO will seek to secure adequate financial resources for its technical assistance and global forum activities and also increase their levels over the next 10 years. This will be done through:

(a) Securing a fair share of the increase in the official development assistance expected in the coming years;

(b) Negotiating for increased allocations under various multilateral environment agreements;

(c) Designing other innovative measures including funding from the private sector organizations and industry associations.

In this connection, the Organization will continue to refine and streamline its methods of work to address the concerns of both the donor and recipient countries.

**UNIDO in the multilateral system**

UNIDO will continue and enhance its cooperation arrangements with other international agencies, such as the World Trade Organization, the United Nations Conference on Trade and Development and UNDP, in

the relevant areas. At the same time it will strive to bring about United Nations system-wide coherence through the adoption of an agreed, MDG-based business plan or common agenda of action on the basis of the concept of issue-based leadership.