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**"New Challenges for Building up Institutional and Human Capacity
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FOSTERING SUSTAINABLE INDUSTRIAL DEVELOPMENT THROUGH INSTITUTIONAL AND HUMAN CAPACITY BUILDING

Presentation by

**Haruko Hirose
Managing Director and
Deputy to the Director-General**

The Twelfth Meeting of the OSCE Economic Forum

**FOSTERING SUSTAINABLE INDUSTRIAL DEVELOPMENT THROUGH
INSTITUTIONAL AND HUMAN CAPACITY BUILDING**

Haruko Hirose

Mr. Chairman, Excellencies, and Distinguished Participants,

It gives me great pleasure to be able to be here to represent Mr. Carlos Magariños, the Director-General of UN Industrial Development Organization.

UNIDO just held last week in Vienna the 28th session of its Industrial Development Board. In studying the programme for this meeting, I see a reflection of many of the same concerns tabled for discussion as were the concerns of the Member States of UNIDO at last week's Industrial Development Board.

In the topics for discussion in the plenary session and the three working groups, I also see a very clear focus on many of the same developmental areas that are the focus of the eight core competencies of UNIDO. UNIDO's recently adopted Corporate Strategy highlights the crucial role of productivity enhancement for sustainable economic growth development and social advance as the guiding principles of the Organization's activities and interventions. There is of course no more important vehicle for the attainment of this productivity enhancement than the strengthening of institutional and human capacity – the theme of this Forum.

The social, political and economic transformation experienced in CEE & NIS in the last decade and a half have brought about dramatic changes to the landscape of Europe. Indeed, it has redefined Europe. While it has brought about a great deal of reform and positive changes to the lives of millions of citizens in the region, the transition process has also been difficult for many; and the transition is still ongoing. There remain many industrial development issues of concern for policy makers of countries in the region.

These challenges include, depending on the specific country in question, problems such as the erosion of industrial potential, industry's declining contribution to GDP, pressing requirements for environmental protection and recovery in the industrial sector, the utilization of aging technologies, the failure of many products to meet international quality standards, the low rate of utilization of productive capacity, the high level of (hidden) unemployment, narrowing markets for locally manufactured goods, and the inability to increase the inflow of foreign capital to the industrial sector. In addition, the market reform measures, such as liberalization, stabilization and privatisation, caused social difficulties in many parts of the CEE & NIS region. Many of these problems - including increasing poverty, deteriorating social services, and the increasing gap between *have* and *have-nots* – remain, despite whatever success has been achieved in the economic sphere.

It should also be noted that countries of CEE & NIS have undergone quite different transformation processes during the last fifteen years. After the initial economic recession due to the collapse of the centrally planned system, some countries showed a strong upward recovery in economic growth, and, as a result, eight of the countries of the region - the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia (along with Cyprus and Malta) - have recently joined the European Union on 1 May, 2004. Others, however, still struggle with fundamental reforms, such as institutional reforms, sound corporate governance, and restructuring of the economy. This regional heterogeneity is one

of the major challenges facing UNIDO in the design of its future program of complementary response and support to the countries of the region.

It is because of the importance of these issues that the Director-General of UNIDO selected “Transition in Eastern Europe – 15 years after” for a Round Table organized as part of the tenth session of the UNIDO General Conference held in December 2003.

It is, however, clear to every member of the audience here today that there is no way to separate consideration of economic, political, and social development in Europe today – including the question of building up institutional and human capacity – from the concept of peace and security. Indeed, it is this very close nexus of these different spheres that makes the theme of this twelfth meeting of the OCSC Economic Forum so very important.

Distinguished Participants,

UNIDO, the United Nations specialized agency for industrial development, has been flexibly and effectively responding to the various industrial development needs and challenges emerged over time as a result of economic transition in the CEE & NIS.

Institutional and human capacity building related to the private sector development, especially small- and medium-scale enterprise (SME) development, such as business advisory services, business incubators, entrepreneurship training, SME policy framework and the investment framework development, has always been a focus of the UNIDO technical cooperation in the region. In order to deal with the recent trend of globalization and international competition, UNIDO’s emphasis on productivity, e-business, investment and technology promotion, technology foresight, and corporate social responsibility (CSR) is increasing. At the same time, environmental sustainability of industrial manufacturing is supported through the UNIDO National Cleaner Production Centers and technical assistance on various international conventions, such as the Montreal Protocol for ozone protection and the Stockholm Conventions for POP (Persistent Organic Pollutants).

Most recently, UNIDO initiated a new Post-Crisis Rehabilitation and Reconstruction Program in order for UNIDO to provide technical cooperation services to the specific needs of the countries facing post-crisis situations. The Director-General, in his final statement to the General Conference in December 2003, outlined a clear vision for strengthening this type of UNIDO service as one way to better respond to the pressing needs of developing countries, mainstreaming UNIDO into some of the core activities of the UN system and thus contributing to achieving the Millennium Development Goals.

In programming these and other activities, UNIDO operates within the framework of the United Nations Millennium Development Goals, as well as of the UNIDO Corporate Strategy referred to above. In addressing the needs of the recipient countries in the region, UNIDO works in partnership with all major actors – government, business, other UN organizations, bilateral agencies, NGOs and CSOs, and the academic and scientific community.

Mr. Chairman,

In the context of transition, the SME sector was generally expected to serve as an engine of economic growth. For this to be realized, it is crucial for the government to create a business environment where SMEs can become competitive and grow, as they expand their business activities. In many CEE & NIS countries, however, improvement of the business environment, which can promote the growth of SMEs, is still an unresolved issue. A number

of major impediments for the SME growth, such as limited access to working capital and long term credit, legal and regulatory restrictions, inadequate infrastructure, high transaction cost, lack of proper institutional set up and limited managerial and technical expertise, still require the attention of policy makers.

In this context, a coherent SME policy framework should constitute an integral component of an overall industrial development strategy. As we all know, no component of this framework is more important than building up institutional development and cooperation. UNIDO helps to establish appropriate institutional arrangements (within government structures) for SME policy measures and support programmes, particularly building-up national capacities to effectively perform an advocacy role for SMEs. Such services build competence not only at national level, but also within local authorities to enable them to come up with coherent sectoral and local strategies and to enhance dialogue with local representative business organizations. In the above context, UNIDO launched a program to deal with these specific issues in some Caucasus and Central Asian countries, e.g. Azerbaijan, Kyrgyz Republic and Uzbekistan.

Foreign Direct Investment (FDI) is expected to advance industrial productivity growth by infusing new capital, technologies and managerial know-how, and improve the average skills and efficiency levels of industry. In many of the CEE & NIS countries, which have limited domestic financial, managerial and technological resources for private industrial investment, FDI can play an important role for general industrial development. These countries often have problems deeply associated with the lack of investment, such as obsolete machines, equipment, infrastructure and raw materials. A great deal of these problems could be improved significantly, if not solved completely, by improving the basic institutional framework, such as development of a more investment-friendly regulatory system and creation of a suitable institutional set up as is done by UNIDO in the Central Asian Region, e.g. Kyrgyz Republic. Also, many managerial and technological aspects of the region's industries could be enhanced by the infusion of foreign business practices and technologies.

For those enterprises from the CEE & NIS region that participate in the global value chains through cooperation with transnational corporations and the international SME-network, it is of considerable importance to adopt a sustainable enterprise strategy that combines the essential elements of a business plan with a commitment to social action in the context of socially responsible enterprise behaviour, and integrates best environmental practices into the production process. Such corporate behaviour will increasingly become an essential condition of participation in the global marketplace. In response to such need, UNIDO developed a CSR in Croatia. In a large scale, multi-country project in the Danube River Basin, UNIDO has for several years been working to support the transfer of environmentally sound technologies to a large number of industrial enterprises in the basin, e.g. Bulgaria, Croatia, Hungary, Romania and Slovakia.

Compliance with best environmental practices would be a vehicle for transforming the small and medium enterprise sector into a motor for introducing and diffusing future-oriented technological change into society. Moreover, it is only through the incorporation of these social and environmental dimensions into its behaviour that the transition enterprise will be able to guarantee its long-term viability in the context of the European-wide (and increasingly the global) market place.

Distinguished Participants,

UNIDO has been taking a number of necessary steps through various Technical Cooperation Initiatives to ensure the continuation of UNIDO's involvement in designing and implementing sustainable industrial projects in countries emerging from crisis situations. In the past, UNIDO participated in inter-agency endeavours for the reconstruction in Bosnia-Herzegovina, Croatia, and in international efforts to aid recovery from the damage inflicted by Hurricane Mitch in Central America. Earlier, UNIDO made interventions in Russia, Belarus and Ukraine in response to the Chernobyl catastrophe. UNIDO also initiated post-crisis projects in Afghanistan and Algeria. Under preparation are project proposals for Sierra Leone, Timor Leste as well as the post-crisis rehabilitation programme for Iraq, Angola and the Democratic Republic of Congo. UNIDO participated in *ad-hoc* post-earthquake assistance in Bam, Iran, particularly in the field of rehabilitation of food-processing industries in the affected region.

Now let me give you one example of OSCE-UNIDO cooperation. OSCE and UNIDO jointly organized a workshop in Baku, Azerbaijan, on business incubation for Azerbaijani government agencies and private sector organizations interested in promoting business incubators. OSCE provided the logistical and financial support for the workshop, while UNIDO took care of the substantive input.

But the partnership can and should go even further, where both organizations can share and supplement organizational expertise and experiences in various fields of economic development and environmental protection. UNIDO will welcome a continuous dialogue with OSCE, or any other potential partners who are present today, to discuss modalities and program/project ideas for our future collaboration in the CEE & NIS region. An effective contribution to the region's economic and industrial development will require a partnership among a wide range of international organizations and NGO's.

As UNIDO Director-General, Mr. Magariños, said in his letter to Mr. Solomon Passy, UNIDO has a strong interest in strengthening the constructive and collaborative partnership between UNIDO and OSCE together with the member states and other partners, particularly in the fields of economic development and environmental protection management in Southeastern Europe and the Former Soviet Union Republics. And UNIDO believes this present Forum is one of such opportunities for strengthening our inter-agency cooperation.

I thank you for your attention.