

UNIDO: Facing the Future

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At the end of 2012, the United Kingdom withdrew its membership from the United Nations Industrial Development Organization (UNIDO), the most recent of several major donor countries (including the United States and Canada) to do so. Although it has had strong support from many developing countries, UNIDO has for many years been regarded with skepticism by some donors. But just as it seemed to be re-launching itself into new initiatives, the sudden loss of nine percent of UNIDO's core funding has plunged the organization into a new period of introspection. With a new director-general being appointed in 2013, what does the future hold?

HISTORY

UNIDO came into being in a rather different manner from other UN organizations. Standard-setting was one of the original rationales for many of them. For industrial standards, however, the International Organization of Standardization (ISO) was set up in 1946, independent from of the UN system. It was not “brought into relation” with the UN partly because it comprised many nongovernmental interests from the beginning.¹

The UN proper was also called on to act as a conduit for the transfer of resources (including humanitarian) to developing countries. These funds are principally UNICEF, the Office of the UN High Commissioner for Refugees (UNHCR), both created in the aftermath of World War II, and subsequently the UN Development Programme (UNDP), World Food Programme (WFP), International Fund for Agricultural Development (IFAD), and the UN Population Fund (UNFPA). Other UN organizations were created in response to development concerns with necessarily global dimensions. The rationale for the UN Conference on Trade and Development (UNCTAD, 1964) was the inequitable global trading conditions and the chronic decline in terms of trade between the North and South. The UN Environment Programme (UNEP, 1972) was created in recognition of the global dimensions of environmental stress and the need for global solutions.

The fact that UNIDO did not tick these same boxes diminished the case for funding by the industrialized countries, on which the UN development system (UNDS) has always been heavily dependent. Yet, from the earliest days, the governments of developing countries have looked to the UNDS for advice and assistance in this sector,

just as they did for the development of agriculture and for the social sectors of health and education.

With pressure from developing countries, UNIDO slowly emerged from within the UN secretariat, growing from a program to a major unit and in 1986 to a UN specialized agency based in Vienna. This protracted birth was due in part to an initial reluctance by developed countries to fund UNIDO. But ideology was another consideration. From the 1940s, the world had quickly become polarized between East and West, and the latter were opposed to public sector sponsorship of the industrialization process, which was perceived as anti-capitalist. UNIDO, in particular, was perceived as too friendly to central planning.

FUNDING EVOLUTION

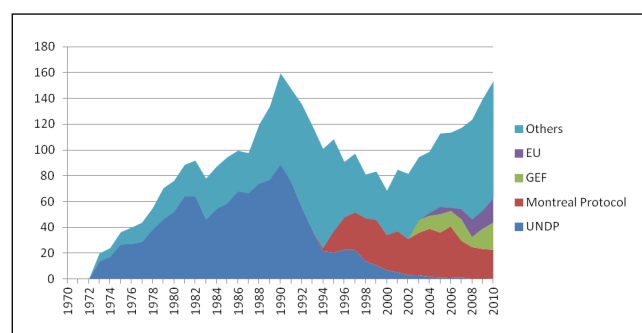
Like all the UN organizations heavily dependent on field operations, UNIDO's fortunes were fuelled by non-core funding. The first decades of UNIDO's existence saw rapid growth, dipping in the early 1980s and then accelerating until 1990 (Figure 1). Reflecting demand, UNIDO received solid support from the UN's principal source of operational funding, the UNDP. In the 1990s, UNDP began withdrawing funds from UNIDO and all other UN agencies as it sought to pursue “national execution” directly with governments.² Although other funding sources initially held up well, the organization was forced to retrench sharply, losing 40 percent of its staff between 1994 and 1997. A nadir was reached in 2000, by which time other multilateral funding support had begun to kick in, notably from the Montreal Protocol, designed to support the phasing out of ozone-depleting substances in industrial processes, a role for which UNIDO was well suited. Subsequently,

FUNDS supports and helps accelerate change in the UN development system to increase effective responses to global development challenges—especially after 2015, the target date for the Millennium Development Goals. Recognizing the many frustrations that have accompanied UN reform efforts, FUNDS envisages a multi-year process designed to help build consensus around necessary changes. Financial support currently comes from the governments of Norway, Sweden, and Switzerland.

the Global Environment Facility (GEF) and the European Commission have supported the expansion of UNIDO's operational activities. By 2010, these had regained the levels of 1990 in nominal but not real terms.

The funding roller-coaster had a profound effect on UNIDO. In the 1990s, its very existence was cast into doubt, forcing major organizational reforms and precipitating a major rethinking of its role. But two areas in particular have offered UNIDO a new lease on life, in line with its sustainable industrialization mandate. The first was providing assistance to developing country industries in the more efficient and environmentally-friendly use of resources. The second was in helping industrial exporters from the South attain global market standards of quality. These two areas correspond to UNIDO's priority areas of environment and energy, and trade capacity-building respectively. A third priority area is known by the vaguer title of "poverty reduction through productive activities" and encompasses a wide range of different industrial promotion activities from policy to pilot projects.

Figure 1: Non-core Funding of UNIDO by Major Sources, 1970-2010



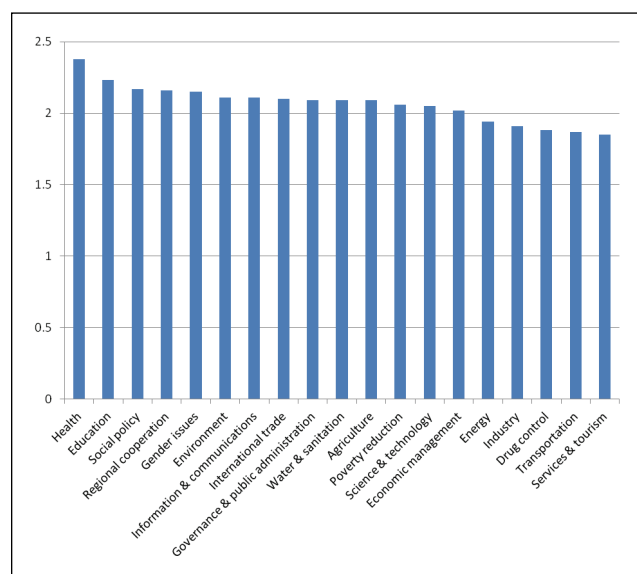
LOOKING TO THE FUTURE

UNIDO has found friends in the North (especially in Europe), but a long-standing skepticism among some developed donors has never gone away, based as much on ideology as on performance—which largely explains the absence from its membership today of the United States, Canada, and Australia that withdrew in the 1990s and the United Kingdom that left in 2012). Ideology is certainly the reason for the UK's departure which, having supported UNIDO under a Labour administration, swiftly changed with the election of the conservatives in 2010. It does not matter that purposive state intervention in industrial promotion has been at the heart of development progress in the successful East and Southeast Asian countries,³ nor that the languishing western economies have grasped industrial policy to revive growth after the financial debacle of 2007/8. History shows that UNIDO will find it hard to win the ideological argument.

Figure 2 provides other grounds for concern. A global perceptions survey of the UN development system conducted by the FUNDS project in 2010 asked respondents from both the public and private sectors to rank nineteen development domains in terms of the effectiveness of the UN in each. Industry and energy were ranked respectively 16th and 15th.⁴ Respondents rated health, education,

social policy, gender and other "soft" sectors as more effective, and thus more appropriate, for the UN.

Figure 2: Global Perceptions of Effectiveness of UN Agencies in Different Fields, 2010 & 2012



Over the years, there has been talk of shrinking UNIDO's role, or combining it with other UN organizations. Whatever its future organizational configuration, UNIDO should continue to burnish its appeal as a development partner by emphasizing the importance of those activities where free market forces are unhelpful to the industrialization process, and where a neutral public organization can add unique value. There are at least two areas of opportunity.

Green Industry

The first is the obvious one where—as UNIDO has often said—the most serious market distortions are occurring: the quality of industrial processes and the greening of industry. Although the figures are not exact, it is estimated that manufacturing uses one-third of the world's primary energy and produces about the same proportion of carbon emissions. The challenge of greening is therefore urgent and crucial. The Montreal Protocol was a natural entry point for UNIDO, which can take satisfaction from having helped to roll back ozone depletion through its interventions with manufacturing enterprises in developing and transition-economy countries. But the work of greening has barely begun, and UNIDO has the opportunity to greatly extend its work to assist enterprises to become less polluting and more energy efficient.

Green economics is firmly on the global development agenda, and the UN summit conference on sustainable development in 2012 (Rio+20) added impetus to the drive for environmental sustainability, alternative energy development and energy efficiency. The UN relies too much on exhortation rather than action. But if new environment accords are negotiated post-Kyoto, which establish limits on carbon emissions, and a growing number of developing

countries seek additional assistance in developing clean manufacturing, then UNIDO's services could be in demand.

There is also a cross-over of the environment to international trade. Some of the most contentious issues in trade negotiations are environment-related, such as border tax adjustments on carbon-intensive exports, the role of intellectual property rights on climate-friendly technologies, and the likely emergence of new carbon-related standards, which could act as technical barriers to trade. In the two major ongoing domains of global negotiations, therefore, UNIDO could envisage growing opportunities for its assistance, applied to all three of UNIDO's principal constituencies: policy-makers, public institutions, and private enterprises.

Product Quality

The second area of opportunity is quality of products and systems. UNIDO is not a standard-setting but a "standard-getting" organization that helps countries and their enterprises to understand the practical implications of quality standards and assists compliance. Export opportunities have heightened the importance of precision and quality in industrial production. UNIDO understands well the quality infrastructure that developing and transition-economy countries need in order to be able to compete effectively in domestic and international markets and it has established a long record of institutional strengthening. Helping developing countries to meet quality standards is the main source of its assistance in this area, and it has enabled the organization to claim a position as the major UN player in trade-related technical assistance.

The quality of industrial production is also important. The agenda should encompass competitiveness not just of products, but along the whole chain of industrial production. In food production, there are concerns of health and safety "from farm to fork." In textiles and garments, quality starts with raw materials and moves through to design. In all industrial processes, product and systems quality is fundamental for the competitiveness of enterprises.

ORGANIZATIONAL CONSOLIDATION

Highlighting quality as the future priority for UNIDO is not to deny the importance of other areas in which the organization is active. But none of them so readily meets the twin tests mentioned above: overcoming market distortions and the provision of services best delivered by a public international organization. Like all parts of the UN development system, UNIDO faces growing competition from other development organizations, especially from the private sector. The fact that it undertakes research and can offer advice and information free of charge or less expensively than non-UN sources is not a justification for pursuing a particular area of activity unless such services are the very best available. Focusing on what it does best, and for which it has the clearest rationale, implies the need for consolidation.

UNIDO is spread too widely and thinly over areas that are only tenuously related to industrialization processes, many of which overlap with the mandates of other UN organizations. While it has

reduced the number of its projects, it is still managing over 600 in more than 100 countries. One reason for this high number has been UNIDO's readiness to take on non-core funding even if it dilutes priorities. A recent thematic evaluation stated that "increasing the sheer number and volume of technical assistance projects should not be UNIDO's top priority, but the organization should rigorously apply its own priority planning and quality criteria, which may mean occasionally 'saying no' to donors."⁵

Over the years, UNIDO has consolidated its structure, which once comprised five separate divisions each under a different deputy director-general. In 2011, all technical cooperation and field services were melded into a single division. UNIDO could still achieve greater impact through more holistic and multidisciplinary approaches. Integrated country programming (and "country service frameworks") began with much promise in 1998 but have not been built upon. Far more trimming and internal coherence is still required.

Geographical consolidation should be another objective. For an organization of modest size, UNIDO spreads itself too thinly in field operations. After the reforms of the 1990s, it began placing its experts in UNDP offices, a sound practice first established decades earlier. More recently, UNIDO has opened more of its own country and regional offices at much greater expense. It should also reconsider its Investment and Technology Promotion Centers (ITPOs)—mostly in developed countries—and its more recent "international technology centers" in developing countries. Six out of ten of these technology centers are in China, which sees them as show-cases for its own technologies and expertise (analogously with traditional bilateral aid).

UNIDO can best extend its reach through networking rather than physical presence. Its Resource Efficient and Cleaner Production (RECP) program, run with UNEP and based in existing institutions in 47 countries, is a good example of a network closely aligned to one of UNIDO's priorities. Rather than multiple field offices, the RECP network should be nurtured and expanded with continuing technical and diminishing financial support.⁶

Finally, e-learning is an under-exploited medium. UNIDO undertakes some useful research, but to transform knowledge into skills, UNIDO needs to change from being a relatively passive purveyor of information, into a more interactive learning organization. Traditional training events are no longer adequate, and they rarely guarantee the acquisition of new skills. UNIDO should embark on more full-fledged e-learning facilities, with benchmarking and certification to objectively record progress, test the capacity of the learner and certify it in an appropriate form.

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NOTES

1. See Craig N. Murphy and JoAnne Yates, *The International Organization for Standardization (ISO): Global Governance through Voluntary Consensus* (London: Routledge, 2009).
2. The reasons are outlined in Stephen Browne, *The United Nations Development Programme and System* (Ondon: Routledge, 2011).
3. UNDP, *Human Development Report 2013: The Rise of the South, Human Progress in a Diverse World* (New York: UNDP, 2013)
4. Future of the UN Development System (FUNDS) project, "Global Perceptions Survey" (Geneva: FUNDS, April 2010). Respondents were from the private sector (31 percent), civil society (27 percent) governments (23 percent), international organizations (4 percent) and the UN system itself (15 percent).
5. UNIDO Evaluation Group, "UNIDO Activities in the area of Standards, Metrology, Testing and Quality," *Thematic Evaluation Report* (Vienna: UNIDO Evaluation Group, 2010). Another recent evaluation stated that "UNIDO programme/project managers view themselves as constrained by donor agendas, and thus not in a position to put themselves in the driver's seat." (UNIDO Evaluation Group, "What has UNIDO done to reduce poverty? – Evidence from UNIDO evaluations 2008 and 2009" (Vienna: UNIDO, 2010)), xi.
6. UNIDO and Leuven Centre for Global Governance Studies, *Networks for Prosperity: Achieving Development Goals through Knowledge-Sharing* (Vienna: UNIDO, 2011). The report states that "International organizations should improve their inter-institutional information and knowledge exchange systems and facilitate better knowledge networking among their members," 147.

