

The Multilateral Development Institutions We Need (Abridged version)

Address by the Director-General
Carlos Alfredo Magariños
to the
Business Week Latin America Summit
on Finance and Structural Reform
6 February 1998

The challenges

At the end of the 1990s, Latin America must grapple with two broad sets of issues — modernization and social development.

Latin America needs to modernize its fiscal and financial systems, its public institutions, and the way labour markets operate. Industry has to raise its competitiveness so that the productive sector can play a full role, particularly in the western hemisphere economy. At the same time it has to undertake social reform in a manner that is not at the expense of sustainable modernization.

Both these challenges can be met if the agenda is broad and coherent. We have to consolidate the economic reforms already in place. And we have to learn to manage many contradictions.

Fiscal Reforms

The immediate task is to consolidate the first round, and to undertake the second phase of economic reforms. Fiscal strengthening has the top priority because it is crucial for Latin American countries' investment in human resources and the infrastructure on which higher growth rates depend. Without fiscal reform, most of Latin America's economies are vulnerable in the medium and long term. Reforms have to make good the major gaps between social security obligations and available resource flows. They have to prevent state-level and municipal over-indebtedness and link their expenditures with their taxation powers. And they have to make all tax collection and public expenditure much more efficient.

Phase Two has to focus particularly on the fiscal deficit left by pension reforms. With VAT levels already high, we have develop new ways to fund pension payments in order to eliminate the 26 to 30 per cent payroll taxes that currently burden business. In the medium term, such systemic changes are

essential. In the long run, higher taxable incomes will have to come from economic growth of industry and other businesses in Latin America. In the long run, the only viable solution to the twin problems of employment and poverty lies in building up competitive productive capacities to generate output and income.

The multilateral response

How deeply should the Multilateral Development Institutions be involved in these challenges? Latin America's achievable goal is a stable, risk-free growth area whose people prefer not to immigrate, and whose growth, wealth and income levels make it an attractive place to trade and invest. Being on the road is not enough: history shows that societies are all-too easily side-tracked by poverty, unemployment and the like. Keeping society on the right road is what the Multilateral System should be working for in support of Latin America's Governments.

All the region's governments really do need significant external help. The real question is what should be the precise role of Multilateral Development Institutions. I will answer from the perspective of industrial development and the strategy my Institution, UNIDO, is evolving to promote it in Latin America.

Strategy for Latin America

Substantively, UNIDO's strategy reflects the main findings of its last annual *Industrial Development Global Report*. This underlined Latin America's need to sustain the upturn in investment rate, to diversify its manufacturing and export base, and to move to high-technology and export-oriented industries. Public and private investment should be channeled to develop technological resources and human capital.

UNIDO will continue to feature the three 'E's of sustainable industrial development — economic, equitable and environmental development. This focuses the limited resources on *economic competitiveness*, *employment* for all social groups, and *environmentally cleaner production* through new energy-efficient and low waste technologies. Through fewer programmes than in the past, UNIDO will concentrate on activities set out under its new mandate: promotion of investment, acting as a global forum for industrial development, and promoting cleaner, sustainable industrial development.

One new programme that combines all three 'E's focuses on compliance with technical standards demanded for exported goods — the ISO 9000 series for quality system standards and, more recently, the series ISO 14000 for

environmental systems. Together they introduced a whole new variable into trade negotiations: the concept of firm-level certification. Some 120,000 firms around the world enjoy certification under ISO 9000. Now there is mounting pressure for ISO 14000 certification — not to mention a myriad of eco-labels, green labels, and blue labels required in different industrial countries. In developing countries, however, even large firms shy away from the amount of human and financial resources they require. Firms are further discouraged by lack of international acceptance of some of their certification, a UNIDO survey last year found. To help, UNIDO is developing integrated services to assist governments and industry to create national standards bodies and to rehabilitate existing ones. They will pass on a new continuous quality improvement methodology, help set up centres for competitiveness, and provide new business decision-making tools. They will also pre-audit developing countries' national accreditation bodies to ensure they meet the requirements of the International Accreditation Forum's Multilateral Recognition Agreement — a key element for broad acceptance of their certification.

Honest brokers

While UNIDO's programmes for economic, equitable and economically-sound development have to be specific for industry, another new area — its role as an honest broker — is potentially interesting for other Multilateral Development Institutions. Its value, I can attest from personal experience.

At the beginning of the 1990s, Argentina's automobile industry was in serious difficulties. It was clear to all that the old protectionist framework had become counterproductive and that a modernization programme leading ultimately to liberalization had to be set up. The result became known as the Automotive Regime, a blend of competition and support mechanisms. Nevertheless, the Government felt it would not work without also ensuring broad acceptance through strict and transparent control. A Presidential Decree therefore required a formal audit, and, as the-then Secretary for Industry, I decided to entrust this audit to a non-national "honest broker". UNIDO designed a project, approached potential auditors, organized international competitive bidding, and administered the contract with the successful firm.

Looking back, the Automotive Regime significantly transformed Argentina's automotive industry and the role of a Multilateral Development Institution was crucial. "*By acting as an honest broker and neutral agent,*" my cabinet colleague, the Minister of Economy, said at the time: "*UNIDO has made a valuable contribution to the Argentine Government's policy implementation by placing the matter at a strictly technical level thus dissipating the pressures that were being exerted around it.*"

I believe that the "honest broker" role for Multilateral Development Institutions will become more important in the future. Many developing country Governments face similar demands where powerful vested interests are conflicting, for example in the mining sector. They will come up more frequently as Governments take on the varied tasks of providing the enabling environment the private sector needs to make its own contributions.

Multilateral Institutions can similarly help to combat corruption, another issue of rising concern to both business and Governments. Reducing corruption, part of good governance, is already a factor in aid and loan negotiations, as well as acceptance for membership of regional organizations. For most businesses, a country's position on the Corruption Perception Index is far more important than the relative attraction of its investment incentives. Between them the Multilateral Development Institutions have the knowledge, the skills, the honesty and the neutrality to provide the services governments need to cope with such issues.

More multilateral impact

One weakness in the Multilateral System we have to address is their difficulty in cooperating with one another. Our fragmentation not only undermines our inherent comparative advantages. It also encourages us to expand our mandates and to compete in areas beyond our core competencies.

The challenge for Multilateral Institutions, and for the governments who comprise their member states and sit on their governing bodies, is to recognize the opportunities and insist on the advantages of cooperation. At a practical level, support for the small-scale sector in Latin America is an example where UNIDO and the IDB could work with greater impact by offering integrated packages. UNIDO and the World Bank would offer better service to governments if their policy advisory groups cooperated in areas of industrial and technology policy. UNIDO's strategy towards Latin America will emphasize working with other agencies. We shall develop initiatives to cooperate with UNCTAD in areas of research, statistics and technology policy. UNIDO and UNESCO could organize region-wide programmes to revitalize and reorient research institutions. UNIDO, UNCTAD and ITC could jointly promote industrial and trade-related foreign investment and technology transfer.

The focus for this cooperation has to be poverty alleviation and employment promotion. If the Multilateral Development Institutions cannot contribute effectively to solving these problems, then they should change. Effective cooperation between them to provide integrated packages of services is one area of change. But if it means merging them, or closing them down, so be it.

Real impact on poverty and creation of employment are the key criteria on which our strategic plans should be judged. Nothing less.

A role for business

In closing, let me suggest the role of business in these matters. It is in companies' longer-term self interest to help disadvantaged people in Latin America to develop into quality customers and skilled workers. It is in their immediate interest to help the governments and support the efforts of the Multilateral system to reduce the costs of welfare, crime, disease, and homelessness. Ultimately these efforts also reduce taxation and corporate spending.

How business can help: essentially by being good international corporate citizens.

In industrial development, it means looking for sustainable investment and trade opportunities with an eye for long-term opportunities rather than the immediate bottom line. For large investors, it means discussing with governments the private sector role in education, infrastructure development and improving welfare. It means following the example of the new owners of privatized water supply in Argentina and steel in Mexico, whose early interventions quickly brought down pollution levels, increased efficiency and lowered costs. Mostly it means doing what chief executives, shareholders and stakeholders increasingly expect, namely contributing more to the quality of life.

Working directly with the Multilateral Development Institutions is also a way business can judge those Institutions' mandates and performance. Business can then use its influence with its own governments to ensure that the multilateral institutions remain properly focused and appropriately funded. In the end, business and governments will get the Multilateral Institutions they deserve.

+++