UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

The Transformation of UNIDO and New Research Priorities for Africa's Growth

Remarks at
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by the UNIDO Director-General
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Ladies and Gentlemen,

Thank you very much, Sir Marrack, for those very kind words of introduction. They give me the opportunity to express my sincere appreciation of the excellent work you undertook as Under-Secretary-General for Peacekeeping one of the most difficult assignments in the UN system, where (as you know) criticism is frequent and praise only seldomly heard.

It is also a great honour for me to be here tonight at St. Anthony's in this distinguished gathering of Oxonians. My subject, *the transformation of a UN organization and the new research priorities for Africa*, is, I think, a fitting context for the Memorandum of Understanding I have just signed an agreement between UNIDO and the University of Oxford to work together in the field of Africa's industrial development and its contribution to the region's broader social and economic development. I am sure this Memorandum will be the beginning of much fruitful cooperation between us.

By way of introduction, let me say that the focus of my remarks this evening will be on the issue of economic growth in Africa. The framework for those ideas is the transformation of UNIDO during the first 18 months of my tenure as Director-General a transformation whose special focus is Africa's industrial development.

Let me begin my remarks on the topic on UN reform and reform of UNIDO.

UN reform was and will be an imperative in the current global context. In my view, reform has to follow two main directions:

- A more detailed and clearly defined set of services to be provided by multilateral institutions;
- And greater interaction amongst these institutions and bilaterals.

The multilateral system is being spearheaded by two different initiatives, one emanating from the World Bank - the Common Development Framework or CDF - and the United Nations Development Assistance Framework or UNDAF. Both these approaches are attempts to integrate the various activities and concepts of development agencies, particularly at the field level. It is clear that are still issues that need to be resolved in order to clarify the services supplied by multilaterals to ensure the proper focus and avoid overlap. And, in this regard I must admit a lot of work still needs to be done. But to admit this, does not diminish the significant achievements that have already been made.

In the context of UN reform, I am pleased to report that UNIDO has taken a lead role in this process. We were among the first, if not the first, to clearly identify our services in the form of 16 service modules.

One of the most important things we have done in the past eighteen months is make UNIDO consistent and coherent with the Secretary-General's Track I and Track II reforms of the UN <u>as a system</u>.

Also, unlike the reform process in previous years, which emphasised budget cuts, staff reduction and restructuring of the Secretariat, the current transformation process seeks a clear future vision for the Organization while establishing a new business culture in the meantime.

We are developing a clear vision of where <u>industrial development</u> needs to go in the early 21st century, and thus where UNIDO needs to lead if it is to play a dynamic role in that development. As in any organization (be it public, private, academic and/or international), we have to maintain a clear idea of <u>where</u> we want to go as an Organization in the next millennium, and <u>how</u> we want to do it. This guidance is absolutely essential to ensure a <u>systemic</u> approach to transformation, rather than the piecemeal approach of the past.

Since the development paradigm has changed a lot during the last 50 years, I found it unavoidable not to introduce drastic reform. Also in my view, the economic discussion has changed a lot. Many of the issues in contention seem to me now to have been resolved. Much of these discussions have been on whether to finance or adjust an economy in order to let it grow. It seems that we have now reached a consensus. Adjustment is necessary. I hope the discussions can now focus on how to improve the performance of global capitalism. In the current situation, wealth and income seem to be concentrated in a few hands and global capitalism seems to be disconnected from the concerns of those whose lives it affects.

The new global context also reassesses the role of the government and the private sector. There seems to be an abundance of private capital flowing around the world. Indeed, private capital flows until recently have reached unprecedented levels. But the problem is, much of this capital is flowing to only a handful of developing countries in South-East Asia and Latin America. Africa, the region most in need of financial support - particularly from the private sector - appears to be bypassed by these flows. As a result, unprecedented global prosperity has gone hand-in-hand with unprecedented poverty and inequality.

This current global situation reemphasizes the need for the services of the multilateral system to be re-articulated to have greater coherence and impact at the field level.

Ladies and Gentlemen,

Let me now turn to Africa and its prospective economic growth. It seems to me evident that we should work much more to help African countries design and to implement their economic reforms. Macroeconomic stability and open markets were the first generation of reforms to be introduced to shift many African economies from the state-led command economic system to competitive market economies. The results of these first generation of reforms were both positive and encouraging. I think today the relevance of structural adjustment and open markets are beyond dispute. And a good opportunity to move forward and address more effectively how to build and develop an efficient set of policies that will link macro-economic stability with micro-economic performance and at the same time improve the welfare of ordinary people.

There is a second generation of reforms, which have not received sufficient emphasis, and that is institutional reforms. Here I am talking about reforms of the legal and regulatory framework as well as more specific supporting institutions such as chambers of commerce, industry associations and other organizations of civil society.

We need also to build the proper social foundation to ensure the success of reforms in the form of more adequate systems of health, education and training. In all of this we need to build up the private sector as the motor of development and more widespread benefits.

This second generation of reforms is also essential. But still would not be enough to simply link macro-economic stability and micro-economic performance. In my view, we need a third generation of reforms. The idea I would like to suggest is essential.

I would propose that this new generation of reforms should focus on the mobilization of knowledge, information, skills, and technology. This should be a generation of reforms aimed at linking macro-economic stability with micro-economic reforms.

I am afraid that to try to solve the problems of the future with the tools of the past will not be sufficient.

Ghana's experience illustrates this. Ghana, remember, is one of Africa's leaders in engaging low tariff-based protection and free trade. Massive depreciation, removal of quantitative restrictions on imports, reductions in corporate taxes and capital gains taxes, removal of price controls, abolition of credit ceilings, privatization of state-owned companies, revision of the investment code and granting of incentives to exporters and investors in infrastructure, combined to give Ghana a stable, open and liberal economy by the early 1990s.

What happened? Studies show that initially MVA did rise. This was because imported inputs were suddenly available to industries that previously suffered excess capacity. But as liberalization spread to other imports, and excess capacity was used up, the exposure to world competition led to a steady deceleration of industrial growth. The sharp, then less rapid, decline that followed the initial rapid growth meant that Ghanaian manufacturing was not taking off in response to the economic and trade reforms. Ghana's employment in manufacturing also peaked before dropping back to a third of its peak level. Equally significant, foreign investment did not respond: Ghana saw no increase in annual FDI flows after the structural adjustment programmes. And what little there was went to mining and agriculture rather than into manufacturing - the only basis for sustained technological and economic development in the long term. Domestic investment did pick up slightly, but not enough to influence manufacturing growth. And, although industrial output increased, it was more by using more inputs of labour and capital than through increasing productivity.

Similar stories could be told for Tanzania and Zimbabwe.

What Ghana's experience shows is that macroeconomic stabilization is not enough on its own. It needs to be prepared for with complementary micro-economic policies and strategies. It needs to make use of grace periods for supply-side measures that, for example:

- Develop skills at specialized worker- and other training institutions, and through stimulation of in-plant investment in training;
- Support the technology infrastructure - quality assurance, metrology, R&D, technology information, and technology extension services - required especially by SMEs; and
- Provide adequate financial support for industrial restructuring and upgrading.

A second reason for reconsidering the neo-liberal consensus is that structural adjustment does not have the same influence on all countries. Their objective differences size, economic level, resource etc. cause them to respond in different ways. In Africa this is evident in inter-country comparisons of the manufacturing value added (MVA), manufactured exports and technological response of firms exposed to trade liberalization.

If we compare the economies of Kenya, Tanzania and Zimbabwe we find that:

- In terms of MVA, Kenya and Zimbabwe did worse in the five years after liberalization than in he period before it. (This was partly exacerbated, but not accounted for, by other factors.) Tanzania did better.
- Liberalization typically forced manufacturing firms to shut down or move to products not facing import competition. (These were either resource-based or simple, low-productivity operations making goods for low-income consumers, i.e. they were a poor basis for long-term manufacturing and export development.)

- In terms of manufactured exports, all three countries did better under adjustment. This was because structural adjustment and trade liberalization improved the export environment. Primary production was better, export incentives were stronger and access to imported inputs and equipment was easier.
- Nevertheless the evidence also points only to better use of existing export capabilities and existing skills and know-how rather than on improved technology and higher skill levels.

The comparison also reveals significant technological response differences:

- Between the countries studied (with Zimbabwe first, Tanzania last);
- Between their sectors (e.g. between engineering and clothing), and
- Between individual firms. Zimbabwe's firms are generally larger, more experienced, more export-oriented and more diverse than the other countries. They also proved far more responsive with their technological changes to the impact of trade liberalization. The same pattern is shown in the distribution of high-, medium- and low technological response within three countries.

The fundamental difference between Zimbabwe, Kenya and Tanzania has been called technological dynamism, the outcome of a complex combination of firm size, firm age, training efforts, entrepreneurial education, firm-level skill development and cluster arrangements.

Of course, technological dynamism is only one factor determining the speed and effectiveness of structural adjustment and the impact on the policies that should follow stabilization. Others include the national physical resources, size of GDP, level of technology, education, managerial skills (in both the public and the private sector). Since each requires a policy response to complement macroeconomic stabilization policies, the microeconomic policy mix will vary significantly from country to country.

With hindsight from such studies, even the most ardent defenders of structural adjustment now recognize the need to assess the capability of each economy to respond to structural adjustment programmes. The recognition is building that, for macroeconomic reforms to be successful over the long term they need to be buttressed by policies and actions that encourage and support adaptation at the firm- and the investment level.

One conclusion from all this is, that the most disturbing issue that now needs to be put on the agenda for economic debate is why macro-economic reform does not guarantee the changes we all deem necessary - changes in technological competence, improvements in individual and factory-wide skill levels, higher productivity, better manufactured export performance, greater value-added in exports, and sustained growth rates.

In summary, much more research and analysis is needed to understand the links between macroeconomic policy and microeconomic policy, and particularly what affects performance at the firm- and institutional levels. This is the new priority. We know that some country indicators in some countries respond positively to macroeconomic reform and trade liberalization. We know that the extent of the response varies, and that in many countries, especially in Africa, the response is not sustained. We can be certain that market failures as well as policy- and policy-implementation failures are a major part of the explanation.

Areas we need to know much more about include:

- Which interventions are best for compensating market failures;

- How best to incorporate those measures in new and implementable micro-level policies and programmes;
- Why investment is not flowing into Africa, despite the region's average profit levels of 40 per cent for domestic firms;
- Why the contribution of African SMEs to employment and exports is so low;
- Why some policies have worked into other regions, for example in Asia, but failed to work in Africa;
- Why a great deals of policy in Africa is enacted without benefit of research findings, or (to put it another way) why good research has so little impact on policy?

And, finally we have to ask the fundamental question:

- Why is Africa's growth so low?

These are difficult questions. But they urgently need answers. I am therefore very hopeful that the work of the new UNIDO Research Fellow and the Centre will make an important contribution in such areas. Structural adjustment programmes have proved their usefulness, but have by no means solved all the problems.

Our diagnosis is that microeconomic reforms are needed everywhere as a complement to the macroeconomic interventions. In order to frame them, however, we need to learn more about the interaction between macro- and the micro-level in each economy. That is why I believe the firm-level industrial surveys that are envisaged in the context of our agreement with the Centre are so important.

Ladies and Gentlemen,

I believe it is very important in these reform programmes that, first and foremost, these countries have greater ownership and leadership. Without this, as we have seen in past experience, reform is unlikely to succeed. It will not succeed either without the full participation of all major actors in society – government, private sector, civil society, media – in the formulation and monitoring of these programmes to ensure support. This is particularly important in difficult times and negotiate consensus.

We have to keep and strengthen reform programmes and thereby improve popular support for them. This means we have to pay special attention to productivity improvements and potential wealth effects.

To this end, we need to assist African countries to develop a strong private sector, stimulate ownership solutions, significantly increase the number of entrepreneurs, and in particular, develop the SME sector. This is the "soft infrastructure" at the micro-economic level that will help link the effects of macro-economic reforms with the life of the people.

In this context, the lack of coherence in SME development and linkage to large firms is a special concern. Small size of firms, particularly in Africa, appears to be a significant bar to exports. Research at the Centre for African Economies shows that firms need to reach a certain minimum size before they have an incentive to export. Those large firms that export, export only a small proportion of the outputs. And also, whereas labour productivity of SMEs in industrialized countries is between 70 and 80 per cent in developing countries is only 20 to 30 per cent.

Ladies and Gentlemen,

Let me end with a summary of observations. I suggest the future work of an organization like UNIDO is to try to give all segments of society a stake in the reforms by giving them a voice in the design and re-adjustment of reform programmes. We have also to ensure that the benefits to them are real rather than apparent. In this way we can ensure that globalization would lead to peace and security and not that the winners of the process are fast distancing themselves from the losers many of whom are in Africa.

Africa's ultimate success in the new globally competitive economic environment will come from the private sector (African and foreign), African governments and the multilateral system working together. Such cooperation is crucial for Africa's progress.

I am cautiously optimistic about Africa's economic future. But I am certain that we can help secure this future by providing the appropriate analyses and policy support at the micro-economic and industrial sector levels. This is the promise of our relationship with Oxford and the Centre for the Study of African Performance. With the right support from the University, and from ourselves, I am sure that the Centre will make an importance contribution to Africa's economic performance.

I thank you for your interest.