



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

MANAGING UN REFORM: UNIDO'S NEED-DRIVEN APPROACH

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Ladies and Gentlemen,

I am honoured to be here by kind invitation of Chatham House' Director, Professor Victor Bulmer-Thomas, and before such a distinguished audience, to talk about the themes of our new book: ***Reforming the UN System – UNIDO's Need-Driven Model.***

I can hardly think of a more appropriate venue to present the subject publicly for the first time and to place it in historical and global perspective, a hallmark of Chatham House's contributions to thinking about international affairs.

Why Reforming the UN System – and How

I felt it necessary to revisit in our book two key questions in light of new developments in the international economy. *First*, why reforming the United Nation System? and, *second*, and as important, how to assess the outcome of reform efforts?

By tackling these issues in the light not just of the historical record of *attempts* at reform of the UN System, but also of the concrete experience of reforming UNIDO, I believe that we have come up with a number of meaningful answers. These, I expect, will help guiding further successful reform efforts elsewhere in the UN System.

Apart from grand political designs such as those relating to reform of the Security Council, most of the numerous proposals put forward over the years share an overarching concern; namely, enhancing efficiency and improving coherence, coordination and cooperation within the UN System. The respective debate has gravitated from issues of structural reorganization to issues of functional harmonization.

With regard to the specialized agencies, the debate has been centred on their position within a spectrum ranging from norm setting to implementation of technical cooperation activities. Obviously, the terms of this debate have an important bearing upon the specialized agencies' pattern of governance, i.e., the more action-oriented and operational an organization's mandate is, the more also its governing bodies must be geared towards impact and adjustment to changing conditions.

The interplay between normative and operational functions has permeated much of the debate on reform of the UN System. It also provides one of the keys to successful reform. I will return to this theme further on.

Incremental and Management Improvements in the Operation of the UN System and its Agencies

Our book assesses over 50-odd proposals for reform of the UN system put forward since the late 1960s as they relate to the conditions at the time they were formulated. These proposals have been implemented to various degrees. For the most part, they have been focused on incremental changes. These set a limit to the scope for efficiency gains to be reaped.

The book devotes quite a bit of time to discuss the issue of incremental versus major changes. Let me review now some salient notes of this discussion and relate them to our current work at the High Level Committee on Programmes, which I have the honour to chair by appointment of the Secretary-General, Mr. Kofi Annan.

As a result of limitations to the extent of the gains to be reaped through incremental changes, increasing emphasis began to be given over time to

improving the quality of management, which was another important and necessary step forward.

For agencies operating under a changing economic, social, and political setting, redressing the way they respond to new needs eventually becomes inescapable. However, a complete turnaround in priorities, organization and operational practices to respond to such changes is not always feasible -- although UNIDO provides a useful example on which I will elaborate later on.

Let me distinguish between two orders of changes: agency-wide and system-wide.

Whilst incremental changes in individual agencies are subject to rapidly decreasing returns, major agency-wide changes may generate quantum jumps in the effectiveness and impact at the level of the agency. But these may have little or no bearing on system's efficiency and impact.

On the other hand, incremental or even major system-wide changes may not necessarily affect operational synergies amongst agencies.

But incremental agency-wide steps, if undertaken with the purpose of generating synergies in mind, may produce dramatic increases in system-wide efficiency and impact. These have rarely been experienced within the UN system. We are currently working in this direction and I am happy to report on this experience to you now. Let me give you two examples.

Aligning budget and programming methodology across agencies according to objectives may appear to be a rather trivial step. It may certainly make little difference at the level of each agency in particular. However, it may render important system-wide gains. The UN system needs to apply such a common methodology, eventually leading to a consolidated programme budget, as suggested by the Childers-Urquhart proposals -- which have never been followed up in this respect. This is not just a matter of accountability.

If a consistent budget formulation methodology were adopted, so that every agency breaks down its respective budget according to common, system-wide objectives, the scope for enhanced coordination would be substantially increased thanks to gains in transparency and comparability.

The Millennium Declaration and the International Development Targets serve as common *policy framework* and as *performance indicators*, respectively, for the system as a whole. A necessary condition for the effectiveness of such common policy framework and for the realisation of these targets as far as the UN System is concerned is for it to operate as an effective guide and gauge for the working of the whole System. This, in turn, requires that all possible across System-synergies be fully reaped.

But it would be utterly impossible to do so in the absence of detailed, accurate and comparable information about who is doing what in the System and how the large variety of actions underway and planned relate to both, the policy framework and the aggregated performance indicators. Regretfully, this is not possible to achieve today, which hinders the chance to assess both, the potential for mutual reinforcement of what every agency is doing and the potential for joint impact.

The second point has to do with strategy. I am convinced that by picking up selected system-wide thematic priorities, already identified in the Millennium Declaration, such as employment generation, HIV-AIDS, water, trade facilitation, etc., and giving the lead-role to a specific agency whose mandate is more closely related to overall theme, we can reap a tremendous potential for increased system-wide efficiency. The lead agency, in turn, orchestrates the collaborative involvement of various other agencies according to their specific competencies. We are already implementing this approach in the field of trade facilitation in partnership with the International Trade Centre and expect to count soon with the participation of other relevant agencies as well, such as FAO and WHO.

I have put forward an initiative to tackle these problems through the High Level Committee on Programmes along the preceding lines. We are in the course of identifying precisely who is doing what in relation to the International Development Targets throughout the UN system and the Bretton Woods institutions. This way, we expect to make some strides towards enhancing System-wide consistency and effectiveness in realising the International Development targets.

Let me now introduce a few distinctions that I find useful in order to characterize the nature of change within the UN System.

Case and Need for Reform

I believe that, particularly in times of change, reforms need to be highly context-specific.

Let me distinguish between the **case** for reform and the **need** reform.

There is, on the one hand, the stated **case for reform**: I have already referred to the 50-odd proposals for UN reform put forward since the late 1960s. These attempts – originated both, within and outside the UN system –, have been aimed, by and large, at attaining efficiency gains, cost reductions, organizational streamlining and enhanced accountability.

And we have, on the other hand, **the need for reform**, that is, the need to adapt the way the system responds to sharp changes in the global economic setting.

I firmly believe that the key to successful reform consists of achieving a synthesis and right balance between both approaches.

The uniqueness of UNIDO's reform experience lies in that it was single-mindedly focused on attaining such a synthesis and, at the same time, on actually bringing it to fruition both, timely and effectively. The key to this achievement was an explicit agreement with key stakeholder countries on the need to adapt the Agency so as to make it responsive to changes in the world economy. And this was followed up through the successful implementation by the management of a concrete working programme or "Business Plan".

The challenge facing UNIDO at the time was such that, had we failed in our transformation efforts, the Agency might well have been cast into oblivion.

Norm-setting and Operational Functions

One of the key lessons learnt from UN System reform experience in general and UNIDO's reform experience in particular is that, over time, tensions tend to build up when governing structures focus on steering normative functions while, at the same time, operational functions tend to grow over time beyond those originally envisaged.

Ultimately, such tensions arise because the universality, equity and transparency requirements that inform norm making are not necessarily those guiding efficient execution. More specifically, the attributes of governance structures that are apt for guiding and managing normative functions differ from those required to lead implementation functions.

The gap between the original purview of governing bodies and the changing profile of technical cooperation programmes and projects can only be partly addressed by gains in management efficiency. This constraint becomes all the more acute when the actual evolution of operational functions, which is driven by the needs of member states, clashes with the limits defined by the scope of the powers and mandate given to governing bodies and management. At this point, redressing the balance entails going far beyond improvements in management efficiency.

The experience of reform of the UN system suggests that addressing the mismatch between original design and evolving performance by means of incremental changes aimed at improved efficiency and focus is relevant, necessary and important. But it is not enough. Adaptation to a changing setting is at least as important as, and perhaps even more important than, internal restructuring. Concentrating on the latter yields decreasing returns.

Reform, in and of itself, neither necessarily addresses the problem of lack of relevance nor confers legitimacy. How can a genuine transformation, that is, one that addresses both, the need for adaptation to a changed environment and that for management efficiency, be triggered? Our experience suggests that this can hardly be accomplished when change is sought within the confines of governing bodies along the lines of traditional political and geographical divides.

Adapting to a Changing Setting

Another important idea discussed the book concerns the fact that all the reform proposals reviewed in it were made within the relatively stable international political post-war and cold war context. However, the international environment has undergone sharp changes since the fall of the Berlin wall. These changes gave rise to substantially new challenges. If the agencies of the UN System were to maintain the relevance, corresponding adaptations could not be avoided.

As a result, incremental improvements in efficiency had to be succeeded by deeper and broader changes well beyond the scope of day-to-day management. Such changes, which relate to issues of mandate and key priorities, demand the involvement of stakeholder countries and put a litmus test to the response ability of the relevant governance structures.

In the case of UNIDO, such enterprise was undertaken by a coalition of reforming countries that coalesced beyond conventional regional and political boundaries in order to catalyse the adoption concrete new initiatives and mobilize the necessary resources to follow them up. This provided the foundations for the recovery of UNIDO's legitimacy and political support, particularly from major donor countries, which were all but gravely diminished.

Acquiring a clear sense of the future of industry and adopting an internal management transformation and a programming transformation were necessary prerequisites to revitalize the Agency.

The need for multilateral action

The emerging rule-based international economic order has been designed with a view to smoothing the path towards globalisation, rather than enabling developing countries to draw on it. This confronts the international community with the fundamental need to properly address the implications of the current international system for development, including those relating to regulating the "global negatives" both, social or environmental.

Concerted action is needed to assist those threatened with exclusion, not just by means of poverty-alleviation programmes but, particularly, by helping them to master the key ingredients of wealth creation and productivity growth, that is, the skills, capabilities and institutions the enable putting new technologies at the service of development.

Looking Forward

The above discussion acquires a special meaning in view of the tragic events unleashed the past week. I have little doubt that demands for improvement and

changes in the System will only increase as a result of the more profound awareness of what is involved in furthering international cooperation and dialogue across diverse societies.

Notional best practices to create wealth need not be identified with universal values. Drawing on benchmarking of best practices and cross-fertilization of experiences across nations ought not be incompatible with diverse institutions and practices rooted in national culture and traditions. If the hypothesis of economic convergence is hard to verify, the hypothesis of institutional convergence is even harder to verify due to the persistence of national specificities.

Standard policies and strategic guidelines hardly apply to developing countries and economies in transition. This substantially limits the scope for replicability. Even among the so-called 'convergence club' of the advanced industrial countries, replication of best practices is hindered by substantive disparities. Such is the case, for instance, in the fields of corporate governance, lean production and skill development.

The needs and means of modernization cut across the boundaries of specific civilizations. As Ortega y Gasset aptly put it: "Life is a set of challenges to which we respond with a set of solutions that we call 'culture'. What has never existed is an absolute culture capable of providing solutions to all problems".

Concluding remarks

I know that the Secretary-General of the United Nations, Mr. Kofi Annan, shares my trust for the value of the approach to reform I have just described, as does H.E. Ms. Clare Short, who very kindly wrote the foreword to our book.

As Mr. Annan explains in his foreword to the Millennium Declaration:

The world leaders have given clear directions for adapting this Organization to the new century. They are concerned, rightly, with the effectiveness of the United Nations. They want actions and, above all, results.

Along similar lines, Secretary Short states in our book that:

The challenge of our age is to manage globalisation equitably and sustainably ... The UN's development impact is well below its potential ... The modernization of policy and organization, which has done much to restore the credibility of UNIDO, needs to be carried through in all the UN funds, programmes and agencies

The UN can only justify its special moral authority as, in Secretary Short's words, 'the only genuinely global institution' if it addresses the needs of the destitute with economy of means, responsiveness and discernible impact. For this, the UN System and its agencies need, first of all, to muster state-of-the-art skills, capabilities and organizational competencies to serve urgent social priorities by means of well defined, timely and competently performed specialized services. They also need to work within a consistent framework, a Development Agenda, to soundly articulate their work. The UN Secretary-General's Millennium Declaration is a landmark on this path.

I am convinced that the approach we pursued is all the more relevant in view of the need to ensure the achievement of the International Development Targets. This means endowing the UN system with the managerial tools and competencies it requires to play as an effective mediator and honest broker of a process of globalisation that works for all. And it also requires a firm and genuine commitment by all concerned.