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## The Art of Policy – Grzegorz Kolodko at Venice II

**this is the fourth in a series of articles on the recent UNIDO meeting in Venice**

*Venice, Italy, 3 October, 2002*

Tanzania's Prime Minister Frederick Sumaye and Poland's Finance Minister, Grzegorz Kolodko

“We know that the basic condition for long-term development is the creative feedback between technological progress and economic reform, which in turn calls for political determination on the part of the political elites, who must be willing to tip the existing balance and to challenge the established position of conservative interest groups. … The question is do we have a combination of this technological progress, economic reform and political determination at the same time?”. Professor Grzegorz W. Kolodko, speaking at *Venice II Updating and Fleshing – out the Development Agenda*, 3 October, 2002, went on to say “there are only a few successful stories and they did happen only when there was the positive combination or correlation of these three conditions”.

Professor Kolodko, who (as of June 6, 2002) is once again Poland’s Deputy Premier and Minister of Finance, was invited to Venice II to speak on *Globalization and Catching up in Emerging Market Economies* in his capacity as founder and Director of TIGER (Transformation, Integration and Globalization Economic Research - www.tiger.edu.pl), an economic think-tank affiliated with the *Leon Kozminski Academy of Entrepreneurship and Management (WSPiZ)* located in Warsaw. His practical experience as First Deputy Premier and Minister of Finance (1994-97), responsible for the *Strategy for Poland* programme, which put Poland in the forefront of transition and the fastest growing economy in Europe, with an annual rate of growth averaging 6.5 percent, no doubt also played a part in his appeal to conference organizers.

Venice II was called by UNIDO Director - General Carlos Magariños because of his belief in the urgent need for a new paradigm for development, built not on the rejection of the current one, but on the realization that its chief elements: macroeconomic stability; trade liberalization; good governance; have not brought about productivity gains that translate into social benefits. The overiding goal of Venice II was to identify the interventions and strategies that would promote private sector led productivity growth and maintain popular support for these reforms by delivering benefits that can be seen in daily life. The agendas of Venice II and Professor Kolodko, once again in the hot seat of Finance Minister have a lot in common.

In addition to the need for a positive combination “technological progress, economic reform and political determination” Finance Minister Kolodko places a lot of emphasis on the quality of national development policy and the need for good institutions. He spoke of three different periods in Poland during its 13 years of "emerging". "First there was the initial shock, to which some refer to as shock therapy, but which I refer to as "shock without therapy"… very much because "this policy of the early shock without therapy in Poland was based upon ill-advised early Washington Consensus, where we were not supposed to be different from Argentina at that time and we were supposed to implement a set of policies to liberalize, to privatize as much as and as fast as possible…. I have been against this early Washington Consensus since the beginning because of the negligence of the institutional building. Simply privatization and liberalization is not working if the institutions are not there".

"After this shock without therapy … we turned in 1994-1997 to the programme … where we did pay more attention to institution building … I mean by institutions just the rules of the game, the law and the organizations which are facilitating, which are streamlining our ability to comply with these rules, as well as culture… institutions and markets are also a culture".

The next period, according to Minister Kolodko was not shock without therapy, but ""cooling without sense". Because there was a problem with the current account deficit, the advisor of the IMF, and everybody else of this now liberal economy, thought, without having another look at what was the at the core of the matter, "the current account deficit is too big and unmanageable". A current account deficit as such, proved that we were absorbing a part of the global investments. We were investing more than we were able to save in our country. So the question is: "why is this coming into the country? - because of a speculative bubble? - because the interest rate differential is too high?", or "what is the structure of this investment? I am pointing in my research to the meaning of the long - term investments (LTI), and if the financing of the current account is stemming first of all from inflowing LTI which are aiming at technological progress, better management skills, etc., it is another factor of durable and sustainable growth. That is the proof of the health of the economy. But then it was followed by such a restrictive policy, that of course, the economy was over-cooled and we have now last year a one percent rate of growth". …So the economy in Poland has been over-cooled by a too restrictive monetary policy. It is still so. We still have 6.3 percent real interest rate in Poland and do not ask me why, ask the independent central bank"!

At the beginning of his talk, Minister Kolodko referred to a remark of the economist, Professor Joan Robinson, that an answer for the economist is the question for the policy maker, and how clearly the truth of her statement had come home to him during his time as a policy maker. "As the policy-maker, my problem is not that we do not know what to do, our problem is that 95 – 99 percent of the time, I am fighting. I am just a policy-maker and I am trying to manage the show, fighting with all the contradictions… they are called free media, they are called business people, they are called foreign investors, they call themselves technical assistants, experts, etc.. The question of policy management is much more important at this stage than, say, simple economic theory. The question is not "how much is two times two?", we know that it is four! But so often we do not have the majority to make in law,… or the ability to convince public opinion that it is so…"

The case of a multinational approaching various Central European countries with the possibility of investing some €400 million over three years, setting up a high-tech factory which would employ some 450 people, was given as a practical example of the realities of political life and the conflict between the need for technological progress and the social aspects of development – the need to reduce unemployment. In the scenario given by Minister Kolodko, the multinational is able to play one country off against the other for the biggest subsidy. The media helps their case by announcing "if Poland does not play, the Czech's will". The Government is faced with pressure to provide a subsidy €50 million to create 450 high-tech jobs, when for €50 million, 4,500 jobs can be created in small and medium-sized businesses. To Kolodko "Policy is not only about coordination, policy is about conflict management… it is an art, not just a knowledge or technocratism. It is an art of sailing between primitive neo-liberalism and populism… looking for a way to create a social market economy".

Although Minister Kolodko says "today, to catch up or not to catch up, This is the question", it seems he sees a possibility that the answer lies in transformation rather than transition, or in "reducing the gap" rather than "catching up". An important distinction, perhaps more for others than for Poland, especially when he says "are these emerging markets of developed or middle-developed or under-developed worlds able to catch up in terms of a generation or two or three or four … with high income countries? I think that the answer is yes. A few of them will. Yet, more of them won't. And we are still living in a world of illusion that we are presuming that we know somehow today how to make it…"

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## Italy approves US$5m Market Access Programme for Argentina

*Rome, Italy, 11 October, 2002*

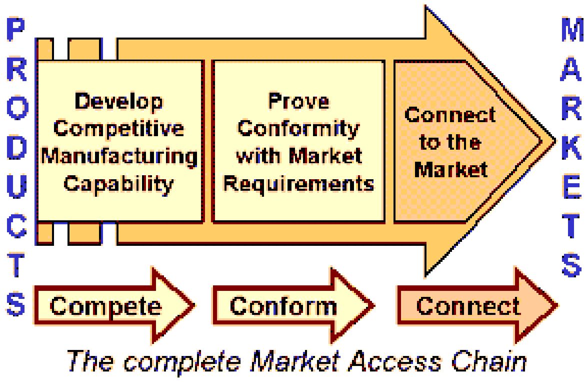
Italy's Vice-Minister of Foreign Affairs, Mario Baccini, the Permanent Representative of Italy to the International

Messrs Moreno, Magariños, Baccini and Ms. Kelly in Rome

Organizations in Vienna, Claudio Moreno, Argentina's Ambassador to Italy Ms. Elsa Kelly, and UNIDO Director - General, Carlos Magariños were all present in Rome on 11 Oct, 2002, for the official approval by Minister Baccini of the UNIDO's Argentina programme of US$5m.

The initial project, "Support to the development of the Argentine manufacturing exports", approved in August, 2002 by UNIDO, (see UNIDOScope 11 - 17 August) now comes under the umbrella of the "The recovery of the Argentine industrial sector - SMEs upgrading programme to foster access to credit and export markets". To respond to the request and expectation of both the donor and the recipient countries, the programme focuses on access to export markets, access to credit and promotion of employment. It has been conceived to give special attention to redress the country's imbalances and target also the least developed provinces of Argentina such as San Luis, La Rioja, San Juan (Cuyo); Misiones, Corrientes, Chaco, Formosa (NorEste Argenino); Catamarca, Santiago del Estero, Salta, Jujuy, Tucumán (NorOeste Argentino); Chubut, Río Negro (Patagonia); and Entre Rios in Pampeana. The programme will focus on sectors and products with high export potential, selected according to the value added and technology level and the end-use of the products (whether final products or inputs for larger companies). Preliminary assessment has identifed meat, fish, biomedical and biotech companies.

The three main components of the programme: Upgrading small and medium-sized enterprises (SMEs); Promotion of investment and technology transfer; and Promotion and implementation of mutual guarantee funds, cover the areas UNIDO considers essential to a meaningful market access strategy. In a nutshell, to take advantage of market opportunities, lower tariffs and subsidies and connect with these markets, developing countries need to have competitive productive capacities and be able to prove conformity to developed country standards, i.e. to connect they first need to compete and conform!




The core of the activity of the programme will be undertaken through Argentinian export consortia, either existing (there are 98), or newly established. A UNIDO SMEs Service Unit (USSU) will be established within the Fundacion Export.Ar., the national body representing the consortia. Coordination arrangements will be established with the Ministry of Foreign Affairs and the National Industrial Technology Institute (INTI), Ministry of Production and other concerned technical institutions.

A national workshop will get the ball rolling with the Upgrading and Market Access component of the programme. Government, private sector and donor participants will identify priority consortia/ clusters/ sectors for upgrading and benchmarking and elaborate a detailed work plan. A National Experts Action Team (NEAT) will be established with staff from all relevant Ministries, representatives of employers and employees, of Universities and higher education / research institutions, as well as local consultancy companies. The NEAT would be coached during the implementation of the Programme and the members would become trainers and experts after the project completion. NEAT trainers will be trained on UNIDO enterprise diagnostic tools, including those for crisis management, the UNIDO market access methodology to upgrade quality, productivity, standards and testing and on the use of UNIDO production and strategic management software (Pharos+Produce-IT and MCCT).

The Investment and Technology Promotion component will be implemented by the SME Service Unit at Fundacion Export.Ar under the supervision of the Investment and Technology Promotion Office (ITPO) in Italy. The Unit will promote industrial, financial and technical collaboration between Argentinean and foreign enterprises, particularly with Italian firms. Argentinean SMEs will be addressed through a network of organizations covering government agencies, industry associations, technology developers, financial institutions and SME developmental organizations. Argentinean businessmen, both individuals and groups, will be able to apply for funds for specific ad-hoc expertise at the technical, technological, managerial, marketing and financial level. Funds will also be available to support the participation of Argentinean entrepreneurs and officials in workshops, seminars and exhibitions. Additionally, the Unit will identify Argentinean clusters / consortia that can be twinned with Italian clusters / consortia operating in the same industrial sectors for the transfer of skills, knowledge, and technologies from Italy to Argentina.

The effectiveness of this component will be enhanced by having Argentinean delegates working at the ITPO Italy. Support services, such as the preparation of business plans, project pre-appraisal, etc will also be provided to local SMEs to assist their access to existing credit lines.

The third component of the programme aims at setting up Mutual Credit Guarantee Funds within export-consortia and other SME associations. The Government of Argentina has established over 30 Guarantee Funds but only few are operational and in a limited way. The programme will evaluate the option of restarting these or creating a Mutual Guarantee Fund ex-novo based on the Italian experience. Mutual Guarantee Funds played a key role in SME development in the reconstruction of the Italian economy after the second world war.

SMEs in Argentina received in 2001 only 18.6%, or US$15.6 billion, of total loans granted by private banks, but they generate 81% of all jobs. In comparison, banks lended 61.1%, or US$51.2 billion, of their total loan portfolio to large corporations, and 18%, or US$15.1bn, to the public sector. During the UNIDO mission to Argentina, it was also reported that 40% of industrial SMEs never approached a bank for a loan, while Argentina's federal and provincial banks lend only 47% of their total loans to SMEs.

Mutual guarantee schemes are especially suitable for loans to small companies (micro-enterprises and SMEs). All around the world, banks are reluctant to lend to small enterprises without collateral. For SMEs, the lack of guarantees is by far their biggest financial problem. Mutual guarantee schemes involve private groupings of companies, in this case, the export consortia, providing loan insurance to the banks. Such schemes are more market-oriented, but less easy to set up than public guarantee schemes, so-called 'government loan guarantee schemes', whereby the government provides a guarantee to the bank, against a premium paid by the borrowing party to the bank or government.

With the Mutual Guarantee Fund, the principle is that, between the bank and the enterprise, a third party is involved. This third party is a fund or Mutual Guarantee Society (MGS), funded by the enterprises' contributions and managed by the enterprises themselves. The fund gives financial (in principle 50 per cent) - as well as moral and technical - guarantees to financial backers on behalf of the member enterprise looking for credit. Based on the assessment of the MGS and the financial guarantee, the financial institution will then grant the credit to the enterprise.

The Mutual Credit Guarantee Fund is expected to become a permanent feature of the Argentinean financial system after the completion of the Programme and serve as a model for establishment of more such funds in Argentina.

UNIDO has agreed with its Argentinean counterparts that during the first six months of the programme, focus will be on meat processors. This is in response to the need expressed by local producers and European buyers to upgrade quality and productivity. During this period a preliminary assessment of Argentinean Credit Guarantee Schemes and of export consortia will also be carried out. The possibility of involving Italian NGOs will also be examined.

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## Heads of UNIDO ITPO's meet in Manchester, UK

*Manchester, UK, 29 October, 2002*

Professor Rickards, UK Under-Secretary Keeble, UNIDO DDG Hirose and ITPO UK Head McFadzean

Delegates from 30 countries attended the first conference of the Heads of UNIDO Investment Technology Promotion Offices (ITPOs) ever to be held in the UK. Speakers included UNIDO's Deputy Director General, Haruko Hirose, and Parliamentary Under-Secretary of State for International Development, Sally Keeble. The event was organised by the Northwest Development Agency, which hosts UNIDO's (ITPO UK).

Chairing the conference, Professor Rickards of Manchester Business School's Centre for International Development set the tone, noting that throughout the world, international affairs now have an increasingly apparent effect upon people's daily lives. Consequently, he said, promoting economic development and well-being in developing countries is not simply a global issue but one that has real implications at the personal and local level.

This was a view shared by Under-Secretary Keeble, who emphasised the need for effective partnerships between the public and private sectors and for corporate social responsibility. She said that the Department for International Development (DFID) had been working in partnership with UNIDO since 1987 and that both organisations recognised the importance of the private sector in bringing essential investment and technology to developing nations. "It is important that we encourage initiatives that are both commercially feasible and capable of bringing benefit to poor people," she said. "We recognise that the private sector is in the business of business, but profitable investment and sustainable development can and must go hand in hand. There is mounting evidence to support the case that social and environmental responsibility can lead to greater profitability; it can deliver benefits such as improved reputation and branding, greater customer loyalty and it can also be an aid to recruitment."

The conference was also attended by leading members of the North West business community, who were presented with case studies of successful ventures in countries such as China, Madagascar, Tanzania and Brazil.The agenda also included one-to-one meetings between business delegates and heads of the UNIDO ITPO network.

The conference also marked the official inauguration of UNIDO's UK Investment and Technology Promotion Office (ITPO), launched in April 2002 (see UNIDOScope 5 -11 May, 2002). UNIDO's Deputy Director General Haruko Hirose, acknowledged the success of the office, pointing out that it provided valuable support to UK companies seeking to develop overseas ventures and, as part of UNIDO's international network, was now engaged in commercial partnership and investment promotion programmes throughout the world.

Details of the support services and UNIDO programmes available to companies, intermediaries and other organisations within the UK can be obtained from the ITPO-UK website www.nwda-unido.org.uk .
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## October 2002 - UNIDO 10 years with Montreal Protocol

October 2002 marks 10 years of UNIDO as an implementing agency of the Montreal Protocol. In that time, UNIDO has played a central role, phasing out almost 22,000 tonnes of Ozone Depleting Potential (ODP). In the refrigeration, solvents and fumigants sectors, the organization developed the most cost-effective programmes among the implementing agencies.

The Montreal Protocol was adopted in 1987, and came into force in 1989. Since then, 183 countries have signed, two thirds of which are developing countries. Nations which have consumption per capita of less than 0.3 kg of controlled substances (such as CFCs, halons, carbon tetrachloride, methyl chloroform, HCFCs, HBFCs, and methyl bromide), are known as ‘Article 5 countries’. To enable them to comply with their Ozone Depleting Substances (ODS) phase out obligations, they are eligible for technical assistance, including technology transfer, financed by their developed counterparts. The Montreal Protocol Fund (MPF) was created to facilitate that transfer.

UNIDO projects amount to 25% of the MPF. So far, 483 projects with a value of over US$ 193 million have been completed. The organization is responsible for 834 projects in 69 Article 5 countries, with a budget of US$ 300 million and a target of eliminating 33,765 tonnes of ODP. During the period 1992 to 2001, 66% of the ODP phased out by UNIDO were in Asia, 17% in Africa, 11% in Europe and 6% in Latin America.

The Organization was the first implementing agency to move directly to hydrocarbons such as cyclopentane and isobutane instead of hydrochlorofluorcarbons (HCFCs) and hydrofluorcarbons (HFCs) as substitutes for chlorofluorcarbons (CFC). Although HCFCs and HFCs represent a smaller danger to the ozone layer than CFCs, they are still a threat to the environment as a whole. HCFCs have lower ODP than CFCs, but it is too high to be considered a permanent substitute. As for the HFCs, they are greenhouse gases. Thus, UNIDO’s approach of substituting hydrocarbons for the CFCs prevents a double phase out.

UNIDO’s role, however, goes beyond environment protection. As the UN Organization with the mandate to develop industry, it takes a "3e" approach – Competitive Economy, Sound Environment and Productive Employment. UNIDO therefore, is also mindful of the impact environment-focused activities such as the Montreal Protocol, Kyoto Protocol or Cleaner Production, have on employment and economic growth. "By enabling their industries to comply with environmental export requirements, UNIDO has opened up new markets for their industrial goods thus encouraging the growth of selected manufacturing sectors", says UNIDO Director-General Carlos Magariños.
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## COMING SOON

**Africa Industrialization Day, 20 November, 2002.** In 1989, the United Nations General Assembly proclaimed 20 November as Africa Industrialization Day (resolution 44/237 of 22 December 1989) within the framework of the

Second Industrial Development Decade for Africa. The Day is intended to mobilize the commitment of the international community to the industrialization of Africa. This year's Africa Industrialization Day has the theme: ***The Industrialization of Africa and the New Information and Communication Technologies***. The 2002 commemoration of Africa Industrialization Day will take place during 26th Session of UNIDO's Industrial Development Board (IDB), 19 - 21 November.
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**13th International Training Programme on Industrial Project Preparation and Appraisal with Special Focus on Fruit and Vegetable Processing Sector** 2 - 20 December, 2002, Mysore, Karnataka, India. The programme is offered by the Inter-Regional Centre (IRC) for Entrepreneurship and Investment Training created by UNIDO and Government of India at Entrepreneurship Development Institute of India (EDI). See http://www.unido.org/doc/521857.htmls for details.

more coming events

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