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15 March 2002Round Table on "Industrial Restructuring in
European Transition Economies: Experience
to Date and Prospects"

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Geneva, Switzerland, 12-13 February 2002

Report on the Round Table**Highlights:****Participation:** 136 participants from 30 UNECE member states**Discussion topics:**

regulatory framework,
sectoral and territorial problems,
employment and income implications,
sources of financing,
innovative managerial schemes and
role of governments

Recommendation: to set up a Team of Specialists on Industrial Restructuring

The following document represents the outcome of the Round Table on "Industrial Restructuring in European Transition Economies: Experience to Date and Prospects" held in Palais des Nations, Geneva, Switzerland, on 12 - 13 February 2002.

Introduction

1. The Round Table assembled 136 representatives of governments, private companies, labour unions and academia from 30 UNECE member countries. Representatives of the United Nations Industrial Development Programme, European Bank for Reconstruction and Development and International Labour Organization also attended.

2. Mr. Paolo Garonna, acting Executive Secretary of UNECE, opened the Round Table. He highlighted the successes of transition process over the past decade and the role of industrial restructuring at the present stage of transition. He also outlined major priorities of the United Nations in the area of development assistance and poverty alleviation. Mr. Garonna emphasized the relevance of the dialogue between all the stakeholders involved in industrial restructuring and wished the Round Table success in its deliberations.

Discussion and conclusions

3. The Round Table discussed political, institutional and regulatory issues of industrial restructuring as a means of enhancing national competitiveness. In particular, it addressed the causes, stages and modalities of restructuring at macroeconomic, sectoral and enterprise levels; best practices of restructuring in individual industries (metallurgy, coal mining, high-technology and consumer goods industries) and enterprises; territorial aspects of restructuring and problems associated with single-industry towns and areas; social costs of restructuring in terms of employment and revenue losses and possible remedies; issues related to domestic and foreign financing, and finally, the role of governments and ways of raising the efficiency of their restructuring policy.

4. Presentations as well as the discussion at the Round Table attested to a considerable diversity of experiences of restructuring in ECE member states, which largely depend on the levels of development and industrial structures of countries, stages of transition process, access to foreign finance by economic units and other factors. At the same time, the Round Table demonstrated that a number of factors rendered the restructuring successful. The participants agreed that the enabling environment for restructuring was formed by governments through institutional and regulatory actions, which favoured structural change and technological innovation. Among those, the sustainable enforcement of property rights, simple rules of new firm formation and clear regulations allowing for an orderly market exit (bankruptcies) were mentioned. At the same time, the Round Table emphasized that soft budget constraints for ailing enterprises, rigidity of barter-based relations that deterred market entry, unclear ownership structures, as well as protectionist trade measures all belonged to the factors inhibiting restructuring.

5. Case studies presented at the Round Table (e.g. the restructuring of ISPAT Karmet metallurgical plant in Kazakhstan), testified to the importance of adequate project financing as a condition for the restructuring achieving its objectives. At the same time, there was an agreement that the access of companies to be restructured and new market entrants to domestic and foreign sources of long-term finance in transition economies remained limited. Without denying the instrumental role of sufficient funding, several participants stressed the primordial role of modern managerial techniques and good corporate governance for successful restructuring. Beneficial effects of new management schemes for restructuring purposes were witnessed by the experience of the Turn Around Management Programme (TAM), which has been implemented in a number of transition economies under the auspices of the EBRD. The importance of strategic planning at the enterprise level as a means of restructuring was also emphasized.

6. The Round Table discussed the implications of industrial restructuring for employment, skills and family incomes of workers involved in this process. While the country experiences and the rates of success (reinsertion into the active labour force) of various programmes aimed at re-employment of redundant workers vary, several speakers emphasized the role of innovative workers' training and retraining schemes in minimizing the social cost of restructuring. In more general terms, successful restructuring depends on the availability of continuous training and retraining for all segments of employees, including senior and mid-ranking managers, and technicians.

7. The Round Table examined country experiences of implementing the social dialogue between parties involved in industrial restructuring. While national practices vary, the experience of several transition

economies has proved that effective dialogue between social partners at the enterprise, sectoral, territorial and national levels bearing upon the whole range of economic and social policies, as well as specific industrial relations issues (e.g. labour legislation and minimum wages) is one of the key preconditions of successful and timely restructuring.

8. It was noted that in many countries of the region various forms of state subsidies remained an important source of financing for ailing enterprises requiring restructuring. At the same time, participants agreed that foreign investment, foreign direct investment in particular, constituted an important source of finance for industries under restructuring. The role of this source of external finance is higher in countries of central and eastern Europe, especially in the so called EU accession countries, and lower in the CIS member states. At the same time, in many countries FDI substitute for the lack of domestic credit financing.

9. The Round Table agreed that the role of the Government in creating framework conditions for industrial restructuring in transition economies remained primordial. Governments initiate laws and regulations, which expose enterprises to market signals and facilitate their market entry and exit. Among other relevant actions, the participants noted here the elimination of selective budgetary subsidies, removal of protectionist barriers to imports, introduction of ownership structures open to control by shareholders, elimination of excessive market entry controls, shortening of lists of activities requiring licences, simplification of the rules of establishment, adoption of bankruptcy law and its consistent enforcement. The importance of government emergency rescue packages provided to insolvent enterprises and that of pre-privatization restructuring schemes were also mentioned.

Follow-up

10. On the second day of the Round Table the participants discussed and adopted their Recommendations to the Working Party on Industry and Enterprise Development (WP. 8), under which auspices this Forum was organized (see Annex). One of the recommendations advised the Working Party to set up a Team of Specialists on Industrial Restructuring with the aim of disseminating information and advising the ECE governments on best practices in industrial restructuring. The participants of the Round Table also recommended that the WP.8 consider making the proceedings of the Round Table available to the ECE governments and public at large.

11. The outcome of this Round Table will be reported to the UN/ECE Committee for Trade, Industry and Enterprise Development at its sixth session in May 2002.

Annex

Recommendations

ROUND TABLE

INDUSTRIAL RESTRUCTURING IN EUROPEAN TRANSITION ECONOMIES: Experience to Date and Prospects

To be considered by the UN/ECE Working Party on Industry and Enterprise Development
(14-15 February 2002)

The participants of the UN/ECE Round Table on Industrial Restructuring in European Transition Economies: Experience to Date and Prospects, held on 12-13 February 2002 in Geneva in conjunction with the annual session of the Working Party on Industry and Enterprise Development,

Recognizing that:

At present stage of transition, restructuring of economic sectors has become an increasingly important means of raising national competitiveness in a number of transition economies, the CIS countries and countries of southeast Europe in particular. Successful industrial restructuring is viewed as a prerequisite for economic growth and social development in those countries, giving a powerful impetus to upgrading the educational level and skills of people, and promoting sustainable employment.

Restructuring of the existing enterprises and the creation of new competitive industries depend in large measure on the regulatory and institutional environment created by Governments. This environment should be conducive to generating incentives for constructive behaviour of economic agents, thus encouraging structural change and technological innovation.

There is a need, however, to balance the requirements of economic transition and social implications of industrial restructuring. The key problem for governments lies in finding solutions favouring the restructuring but minimizing their social costs. Particularly painful can be the restructuring in single-industry towns and areas, where potential closures of uncompetitive production sites endanger employment and income opportunities of thousands of people. At the same time, reform-minded governments have to find ways to withstand the pressure of groups with interests vested in the old and non-viable enterprises and overcome their resistance to industrial restructuring, the delay of which will only contribute to aggravating the social situation.

Macroeconomic stabilization, undistorted price and tariff structure, competitive environment neutral to all resident companies, both domestically- and foreign-owned, sustainable enforcement of property rights, including the rights of minority shareholders and intellectual property rights, transparent rules governing new firm formation, and clear regulations allowing for an orderly market exit (bankruptcies) are the key preconditions of successful restructuring and attracting investment to the restructured enterprises, including the strategic direct investment from abroad. At the same time, the lack of business premises and infrastructure, including poor transport and telecommunications, prevalence of non-monetary transactions that deter market entry, soft budget constraints for ailing enterprises, unclear ownership structures, as well as protectionist trade measures all inhibit restructuring and strengthening the competitiveness of local producers.

The experience of many of the transition economies has shown that the privatisation in a variety of its forms does not automatically bring about improved corporate governance and enhance competitiveness. In many cases, governments have to initiate the restructuring before the enterprise is privatised, so that the assets of the enterprise are adequately evaluated, rendering it attractive for domestic and foreign investors.

While the availability of external finance is deemed vital for the successful enterprise restructuring, the access of companies to be restructured and new market entrants to domestic and foreign sources of long-term finance is limited. Diversification and capacity building in domestic financial and capital markets is one of the key preconditions of structural change. At the same time, modern management techniques, often associated with foreign direct investment, contribute importantly to the competitiveness of restructured enterprises.

Transition economies need to develop a culture of lifelong learning that includes continuing training and retraining of managers, technicians and blue-collar workers. The upgrading of human resources is both a precondition and the most important result of industrial restructuring.

Governments have a central role to play in successful industrial restructuring so that this will contribute to the economic efficiency and prosperity of people affected.

Recommend the Working Party to take the following actions:

- To draw the attention of governments throughout the region to the need to promote regulatory and institutional frameworks, and enabling environment conducive to restructuring the existing state- and private-owned uncompetitive industries and promoting the development of new enterprises, including in high technology and services sectors;
- To call on governments to ensure respect for the principles of sustainable development, including the social equity and development, and protection of environment, in promoting the industrial restructuring and socially-responsible approach to entrepreneurship;
- To bring to the attention of decision-makers conditions and actions which favour the restructuring and to consider measures that facilitate orderly market entry and exit of companies from the market, including the bankruptcy law;
- To call on governments, relevant international organizations and the private sector to contribute to the organization and financing of labour retraining in the restructuring enterprises and to examine the variety of available retraining schemes and modules in order to identify the best suited to the needs of countries in transition. To the same end, government and private experts should draw more actively on the experience of public-private partnerships in the area of human resources development, and make use of the relevant practical knowledge accumulated by the International Labour Organization;
- To continue examining the best policies and practices applicable to industrial restructuring in transition countries, and problems encountered in this process, especially in European transition economies, and disseminating this information to member-governments and other stakeholders, including the private sector;
- To promote best practices of industrial restructuring in transition economies and to consider setting up a Team of Specialists on Industrial Restructuring under its auspices in order to define and undertake concrete projects to this end; ensure that the activities of this Team of Specialists be supported by adequate resources;
- If the decision to set up the Team of Specialists on Industrial Restructuring is taken by the Working Party, ensure that the first meeting of this Team takes place no later than 30 June 2002;

- To consider the following priority areas of work for the Team of Specialists on Industrial Restructuring: government policies conducive to industrial restructuring and innovation, including the institutional setup; measures aimed at attracting external resources to sectors and enterprises under restructuring; and improved corporate performance and ethical governance as a vehicle to enhance competitiveness of enterprises;
 - To make the proceedings of the Round Table available to member Governments and relevant institutions interested in this subject in the three working languages of the UNECE as speedily as possible.
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