



Distr.
GENERAL

IDB.24/20
12 June 2001

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twenty-fourth session

Vienna, 19-22 June 2001

Item 5 of the provisional agenda

PROGRAMME AND BUDGETS, 2002-2003

Programme framework

Report by the Director-General

Addresses the request of the Programme and Budget Committee as contained in conclusion 2001/3, including more details concerning the changes proposed to the programme framework as outlined in document PBC.17/3.

Introduction

1. The Programme and Budget Committee at its seventeenth session adopted conclusion 2001/3 on the proposed programme and budgets, 2002-2003. The Committee, inter alia, requested the Director-General to submit to the twenty-fourth session of the Industrial Development Board more details concerning the changes proposed to the programme framework as outlined in document PBC.17/3, taking into account the comments made by Member States, and their implications for the UNIDO budget as a whole, in particular on activities related to technical cooperation, in order to facilitate clarity and transparency. It also urged the Director-General to seek to identify efficiencies in order to maximize the impact of UNIDO's available resources. Finally, the Committee expressed its concern at the negative growth in the operational budget and the reduction of Major Programmes C and D, which constitute the core activities of UNIDO, and urged the Secretariat and Member States to do their utmost to reverse this trend. The present document is submitted in line with the mandate of Programme and Budget Committee conclusion 2001/3.

Reduction of the number of service modules (IDB.24/3, para. 13)

2. The reduction of the number of service modules from 16 to 8 does not imply a reduced volume of technical cooperation. The reduction in the expected volume of technical cooperation activities is caused by factors independent of the grouping of service modules. The streamlining of service modules is meant to enhance focus and integration, and elimination of remaining overlaps/duplications of services provided by UNIDO in such a way to align UNIDO services with international development targets as envisaged in the Millennium Declaration. The streamlining was accomplished by merging existing service modules, taking into account the field of activities and knowledge. The ongoing integrated programmes are thus not affected.

3. The reduction was also intended to introduce better alignment with the new organizational structure where there are eight technical branches in the two technical divisions.

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New initiatives and discontinued activities (IDB.24/3, paras. 11 and 15)

4. New initiatives have been the subject of informal information provided to Member States on recent occasions. One new initiative relates to the strengthening of quality, metrology and certification systems in countries to enable them to participate in international trade, with emphasis on agro-related products. This initiative integrates several services. This was also as proposed as one "deliverable" during LDC III in May 2001 and included in the database for the Conference. In the area of technology, technology management has been initiated in addition to technology foresight. The intention is to pursue technology management as an organized discipline. UNIDO has just organized a conference on technology management with a focus on the Arab region, which will be followed by technical cooperation activities both at regional and national levels. In the environment field, UNIDO is increasing its activities under GEF (POPs, international waters and energy efficiency) and this activity is expected to grow considerably in the coming years. Finally, several strategic research activities are being initiated in partnership with reputed universities, and to support these and other activities the office of strategic research has been created under Programme B.1 (Executive Direction and Management). All these activities will be carried out within available resources.

5. At the same time, some traditional activities will be discontinued taking into account available limited human resources and relative priority. Statistics-related technical cooperation activities under Programme C.1 (Industrial Governance and Statistics) will be discontinued. Under Programme D.3 (Montreal Protocol), UNIDO will minimize its role in the aerosol sector. In this sector, only projects that are already in the pipeline and targeting countries in dire need of assistance will be considered in 2002. Other than these specific activities, the scale of ongoing activities will be contained within available resources by more rational assignment of staff and achievement of synergies.

Reductions to Major Programmes C and D (IDB.24/3, paras. 26 and 27)

6. The programme and budgets for 2002-2003 are presented under a no-growth regular budget and a negative-growth operational budget scenario. The main reason for the decline in the operational budget is the reduced level of expected technical cooperation delivery in 2002-2003, as explained in document PBC.17/CRP.7. The operational budget is derived mainly from support cost reimbursements from technical cooperation activities; therefore, most of the operational budget resources are allocated to Major Programmes C and D, which are directly involved in technical cooperation activities. This means that, when operational budget

income is reduced, operational budget resources allocated to Major Programmes C and D have to be reduced.

7. However, it should be noted that a significant part of the resources of Major Programme E (Regional Programme) are dedicated to the delivery of technical cooperation. Most of the 20 posts in the regional offices (€5.2 million) are technical in nature and directly contribute to the implementation of Major Programmes C and D. RPTC and IDDA resources allocated to the Regional Programme (€2.8 million) are also used directly for programme formulation and implementation. Through alignment of the resources under the Regional Programme with those under Major Programmes C and D, efforts will be made to maintain, and even to enhance, the substantive delivery capacity of the Organization in the 2002-2003 biennium.

8. It should also be noted that, while budgeted resources for Major Programmes C and D are reduced, actual resources available for those major programmes may actually be higher in 2002-2003 in comparison to 2000-2001. As chart 3 of PBC.17/CRP.7 shows, the actual level of technical cooperation delivery for 2000-2001 is estimated at \$158.3 million (compared to the budgeted level of \$218 million), and the expected delivery for 2002-2003 is \$185 million. Should this materialize, the Secretariat expects that more operational budget resources will be actually available for Major Programmes C and D than in the current biennium, particularly in the form of a lower vacancy rate for those major programmes. Indeed, the Professional staffing level of these corresponding divisions has been increasing since mid-2000 (110 in June 2000, 112 in June 2001 and 118 expected in December 2001), and this trend is likely to continue. The ongoing external recruitment for 16 posts (most of them technical) is a further step in this direction.

Technical cooperation and global forum activities (IDB.24/3, para. 14)

9. As pointed out in the programme and budget proposals, technical cooperation and global forum activities are integrated in the delivery of UNIDO services. While global forum activities are separately shown under each programme in the proposed programme and budget document, it should be emphasized that global forum activities are not carried out at the expense of technical cooperation activities. There is a complementary, mutually reinforcing and supporting relationship between the two types of activities. A recent review suggests that resources spent for global forum activities have been reduced significantly over the last 10 years, and for 2000, less than \$1 million was used for major global forum activities. The Secretariat is endeavouring to maintain a proper balance between the two activities,

taking into consideration their mutually reinforcing and supporting nature.

Efficiency savings (IDB.24/3, paras. 28-30)

10. Continued and intensive efforts to achieve efficiency savings, particularly in Major Programmes F (Administration), G (Buildings Management) and H (Indirect Costs), have resulted in the reduction of total net resources of those major programmes (by 7.6 per cent before recosting). The efficiency savings are used for Major Programmes C, D and E to reduce the negative impact of the reduction of the operational budget resources for these major programmes.

11. As for Major Programme F (Administration), it should be emphasized that it contains service functions that provide direct support to the delivery of technical cooperation activities, such as recruitment of project personnel, procurement of project equipment and financial management of technical cooperation. These functions could be considered as part of Major Programmes C and D. Indeed, until 1996-1997, UNIDO had a major programme for technical cooperation support that provided these service functions. Administration has been severely downsized over the years. While essential administrative services are still provided, the quality of the services has been affected. Further reduction in Administration would directly and certainly undermine technical cooperation delivery capabilities.

12. Efficiency improvement efforts in Administration during the last two years include the following. The number of staff in Human Resource Management has been reduced from 40 at the beginning of 1999 to 32 in May 2001. Human Resource Management has coped with this reduction by, for instance, streamlining entitlements and lump sum payments. The number of

staff in Financial Services has been reduced from 54 at the beginning of 1999 to 45 in May 2001. This reduction has created enormous pressure on staff, particularly in connection with the introduction of the euro and the new financial performance control system. The quality of work has been negatively affected. Finally, the number of staff in General Services has been reduced from 41 at the beginning of 1999 to 36 in May 2001. General Services has coped with the reduction by improved efficiency, for example in the area of management of travel and logistics.

13. Under Major Programme G (Buildings Management), significant savings have been achieved and the proposed expenditure level represents a reduction of 8.1 per cent over the 2000-2001 biennium. The total amount budgeted for Major Programme H (Indirect Costs) is reduced by 14.2 per cent, mainly due to a reduction in the UNIDO contribution to Buildings Management.

14. The Secretariat is continuing its efforts to identify further efficiency savings, and sustained efforts will be continued to realize efficiency savings during the implementation of the proposed programme and budgets, 2002-2003.

15. In Major Programme F, the second sentence of paragraph 28 in document IDB.24/3 should read as follows: "An increase in the share of Administration in the total budget from 14.3 per cent to 14.4 per cent results from the transfer of institutional relations activities from Major Programme B (General Management)."

ACTION REQUIRED OF THE BOARD

16. The Board may wish to take note of the information provided in the present document.