

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION



OPENING STATEMENT

OF THE

DIRECTOR-GENERAL

Mr. CARLOS MAGARIÑOS

TO THE

TWENTY-FIRST SESSION OF THE

PROGRAMME AND BUDGET COMMITTEE

VIENNA, 10 –12 MAY 2005

Distinguished delegates,
Ladies and gentlemen,

I would like to warmly welcome you to the twenty-first session of the Programme and Budget Committee. To begin with, let me express our deep gratitude to the departing Chairman, H.E. Ambassador Horvath for his constructive and able work in leading the deliberations of the PBC, as well as his bureau. His commitment provided a leadership that was much appreciated.

I would also like to take this opportunity to congratulate you, Mrs. Noriega Urizar, and the new bureau on your unanimous election. I am confident that under your able guidance this session of the PBC will also be conducted in an efficient and constructive manner.

Distinguished delegates,
Dear colleagues,

This is a particular PBC for me since it will be the last opportunity I will have as Director-General of UNIDO to report to this body. Therefore, I thought that, together with the subjects I need to introduce to facilitate the work of this session I will offer a summary of what has been achieved during these years of transformation of UNIDO.

The current positive situation must be seen in the light of what the Organization was facing in 1997, when you first elected me as Director-General of UNIDO. At that moment many questions were raised about its relevance, or indeed the necessity for this Organization as a specialized agency. Much work was needed to stabilize the critical financial situation; to implement the Business Plan; to refine priorities; to refocus and integrate UNIDO's services; to raise the very low morale of its staff resulting from uncertainties about their contractual status and future; and to instill a new ethos of teamwork in order to be more responsive to the needs of UNIDO's clients.

I take great pleasure in informing you that the favourable trends of recent years were not only sustained in 2004, but also surpassed. The Organization recorded significant improvements in all relevant performance indicators, which confirms that the administrative, financial, management and programmatic reforms undertaken during the past seven years have resulted not in a paper reform but in a comprehensive transformation of UNIDO and its restoration to a position of respect in the development community.

I am therefore pleased to report that the difficult and challenging task we had in front of us seven years ago has been thoroughly accomplished.

As can be seen, in 2004 the value of our technical cooperation delivery reached \$98.8 million, an increase of some 44 per cent over the delivery of 2000. Also for the first time, the delivery exceeded the 1997 level, when our regular budget was cut by 20 per cent. If you need any measure of productivity improvement in UNIDO, you can take this one: with 20% less resources, we are delivering at least at the levels of 1997.

The prospects for 2005 look even better. We expect to reach a delivery level of some \$110 million during this year, which will be the highest in UNIDO's recent history. To support this statement, I would like to show you the situation as of 30 April 2005, when the delivery was \$47 million, which is \$10 million above the level of April 2004 (delivery of \$37 million). Thus, we have solid ground after the first quarter to expect that by the end of the year we will reach \$110 million in TC delivery.

This means that the actual delivery in the current biennium is expected to be \$24 million higher than the budgeted TC delivery for the same period, another indicator of our remarkable turnaround.

Some important factors that contributed to achieving this turnaround in TC delivery have been the changes introduced since 2001 in the senior management team and the strengthened monitoring and control functions, and most importantly the dedication of our staff and the commitment and support shown by our Member States. I would like to thank you for all your efforts to make this performance possible.

This growth in our technical cooperation delivery was made possible by increasing voluntary contributions received by UNIDO from its development partners. The actual contributions received from all sources was over \$137 million in 2004, as compared to \$69.1 million in 1997, i.e. almost doubled in the last seven years, thus showing the increasing confidence of the donor community in the work of the Organization.

Distinguished delegates,

Now let us look at some of these technical cooperation figures a little closer, as I believe they provide some important indicators for UNIDO's current and future activities.

There is a gradual shift in the Organization's portfolio of TC delivery. As can be seen, in 2004, about 70 per cent of UNIDO's delivery was in the area of the implementation of international protocols and the development of industrial support institutions, such as ITPOs. As opposed to this, in 1997, the delivery in these areas was some 40 per cent of the total delivery.

This shape of our portfolio has certain implications. You may recall that over the last few years, I have repeatedly emphasized the importance to redress the shape of our portfolio mix, particularly in light of the need to support the achievement of the MDGs. We need to do more in these areas which are listed in the chart in order to contribute more effectively to alleviate poverty. More TC programmes and resources are needed for private sector development, trade capacity building, technology transfer, investment promotion, agro-industries, industrial governance and energy-related activities. One of the biggest challenges for the Organization in the future is to increase its TC activities in these areas, while at the same time ensuring its continued commitment and contribution to the implementation of international protocols and development of industrial support institutions. Growth in these areas should not be at the expense of the activities we are currently doing to implement the international protocols but in parallel and maintaining our involvement in those areas.

Let me provide you with a concrete example to demonstrate the importance of our portfolio mix and which are the implications for UNIDO activities.

For Africa and African Arab States, it shows that the share in 2004 was some 23 per cent of the total delivery, excluding Special Resources for Africa, as compared to some 31 per cent in 1997, excluding IDDA. However, without the protocols and industrial support institutions, its share amounted to some 47 per cent in 2004, as compared to 38 per cent in 1997.

This shows that the limited resources available for the areas mentioned earlier were largely focused in Africa and African Arab States. More contributions in the field of private sector development, trade capacity building, investment promotion and other areas mentioned earlier will help us to do more in Africa to contribute better to the achievement of the MDGs.

Over the last two years, I have often called for greater contributions in the areas just mentioned. I am pleased to note that donors have positively responded to this call by providing more resources, which is evident from the approvals to date; I will be providing more details on this at the forthcoming IDB.

Distinguished delegates,

The changes in the shape of the portfolio mix are at the centre of the discussions and focus in the Secretariat. We have taken a number of actions to ensure a smooth shift in our portfolio. Of the various measures taken, I would like to highlight three important ones, which are:

- The implementation of the programme and project approval process through the establishment of four Programme Approval Committees (PACs).
- The Joint UNIDO and UNDP agreement to expand our field operations with a focus on private sector development, a new model that also strengthens the Resident Coordinator system; and
- The introduction of the RBM principles in the programme and budget proposals for 2006-2007.

Regarding the first subject, I will report on the performance of the PACs at the next session of the IDB, as these Committees will have completed one year of operation by that time.

Concerning the joint UNIDO/UNDP agreement you may recall that towards the end of September 2004, UNIDO signed an agreement with UNDP to enhance our field representation and to cooperate in the area of private sector development. I am pleased to report that since then we have made considerable progress towards expanding our field network. As of today, eight of the foreseen fifteen UNIDO Desks are already operational; this means that we now have offices in some 38 countries, an increase in our field presence of some 30 per cent of the total. The establishment of the remaining seven desks is at various stages and should be completed in the next couple of months, which will result in an increase of some 50 per cent in our field presence.

The progress and success of any partnership, however, depends on the full and unconditional commitment to the process by all parties involved. I would like to express my gratitude to all the countries that participated in this scheme and we trust that the level of commitment observed until now will remain in place under the new leadership of UNDP.

Madam Chairperson, distinguished delegates,

I will now turn to the subject of this meeting, which is our programme and budget proposals for 2006-2007. A number of briefings on this subject have already been held during which clarifications were provided to Member States. Mr. Fornocaldo chaired most of those meetings and in his capacity as the Managing Director of the Division of Administration will also introduce this important item later. I will, therefore, only highlight a few salient points.

You will note that in order to move closer towards the formulation of a fully programmatic budget, the programmes have been presented in a thematic manner. Furthermore, as called for by the tenth General Conference, all programmes follow the principles of results-based management providing clear objectives, expected outcomes and corresponding performance indicators and expected outputs. The Secretariat considers this to be a major step in further improving the performance and accountability for results of the programmes carried out by the Organization.

Although the requirements submitted by various managers to meet the ever increasing challenges and demands were considerably higher, in keeping with past practice and following a prudent approach, I have submitted the next biennium's regular budget at the same level as in the current biennium, when compared using the same cost levels. As can be seen, the exception is the additional resources required for meeting enhanced security-related requirements at the VIC.

Let me highlight one subject I consider extremely important to be analysed during your deliberations. The operational budget income estimate for 2006-2007 shows a reduction of some €2.3 million (or 10.7%) as compared to 2004-2005. This reduction is anticipated in spite of the fact that UNIDO's technical cooperation delivery in the next biennium is expected to be around \$237 million, as compared to the 2004-2005 budgeted amount of \$185 million, i.e. an increase of some 28 per cent. This negative growth in income is primarily due to the depreciation in the US dollar, as most of our technical cooperation portfolio continues to be in dollars, but expenditures are incurred in euros, thus resulting in a considerable loss of purchasing power.

The effect of the weaker dollar can be seen from the performance of the 2004-2005 operational budget income, which was based on an estimated delivery of \$185 million. Based on the information available at the time of the preparation of the programme and budgets, it was estimated that this delivery would result in an income of \$19.5 million, or €21.5 million using the exchange rate applicable at that time.

Now, based on the actual delivery of 2004 and the estimated delivery of 2005 (a total of about \$209 million), the income in dollar terms is expected to be \$23.1 million (or \$3.6 million higher than the budgeted amount). However, despite an increase of some 13 per cent in the delivery and increase in income in dollars (18%), the support cost income in euros is expected to be €18.3 million, i.e. a reduction of €3.2 million, or some 15 per cent, in the budgeted income. This reduction is also confirmed by depreciation in the value of the dollar when compared to the rate used for budgeting for 2004-2005.

My colleagues from Treasury, Finance and the Comptroller-General will be available to give you more details on this, if required. We do not foresee any major problem in the immediate future but we do think that it is a subject that needs to be considered the moment you analyse the programme and budgets for the Organization. To address this exchange rate issue, it would be necessary to introduce some kind of mechanism to protect the purchasing power of the Organization, as has been done with the approval of a special reserve for such a purpose for the regular budget, or a significant change in the portfolio based on euro-based programmes/projects.

Madam Chairperson, distinguished delegates,

I have said that the Organization has regained its international reputation and that we have accomplished a successful transformation. Let me provide you with independent evidence and confirmation of this fact by briefly touching upon the independent assessment of 23 multilateral institutions undertaken in 2004 by Department for International Development of the United Kingdom under its programme for assessing and monitoring multilateral effectiveness. As shown, the final copy of this assessment and a comparison with other institutions was received by UNIDO in late March this year and shared with all our Member States.

I will not go into the details of the analysis, which was very sound and deep, but I will say that it is heartening to note that this assessment provides an independent confirmation of the effects of the reforms undertaken by UNIDO and the turnaround it has achieved. Taking into account all the developments and achievements since late 1997, UNIDO has received the highest ratings by DFID and is placed as the best Organization within the group of United Nations standard setting organizations. UNIDO also emerges from the assessment as one of the most effective of the 23 institutions reviewed by DFID; more precisely it is ranked number six. This is a tremendous recognition of the intensive work that we have all carried out over the past seven years in order to make our Organization more relevant, effective and responsive to the needs of our stakeholders.

I am pleased to see Mr. Shauket Fakie, the Auditor-General of the Republic of South Africa, with us today; he will shortly be presenting his interim report on the activities carried out during 2004.

Before briefly commenting on his conclusions, let us recall that in 2002, on the completion of his appointment with UNIDO, the President of the Federal Court of Audit of Germany stated in his final report: "During my term of office of eight years, I have witnessed the severe difficulties faced by the Organization as to its *raison d'être*, as well as the resulting uncertainty faced by its staff until the end of 1997. Since then, Member States, management and the Organization's staff have jointly worked hard to reverse this trend and regain the confidence of the international community. I am now pleased at this point in time to report that the Organization has achieved relevance, financial stability, improved technical cooperation delivery and quality of services offered through more focused activities. The future looks promising for UNIDO. My staff and I would like to take this opportunity to extend our good wishes for the future to the Organization and its staff."

It is worth noting that three years after his appointment, following various audits and reviews of the Organization's activities and operations, in his second interim report covering the Organization's activities of 2004, the Auditor-General of South Africa has stated in closing: "At the time of my appointment as external auditor to the organization, my predecessor in his final report to the PBC (PBC.18/3) complimented the Organization on regaining the confidence of the international community. To date, I have witnessed the Organization advance through a period of revitalization and it is with great interest that I will follow and assess the implementation of the above-mentioned developments and many more to come. In my view the organization is well run, a view that is endorsed by a number of independent reviews and accolades on the progress made by the Organization."

Distinguished delegates,

In the current environment where the UN organizations are facing considerable scrutiny, and indeed criticism on the way they are being run, it is with great pleasure and satisfaction that I, on behalf of the staff of this Organization, acknowledge the statements made by the Auditors.

Madam Chairperson, distinguished delegates,

Before concluding, I feel obliged to briefly touch upon the subject that should be of concern and interest for all of us, that is the Secretary-General's report "In Larger Freedom", containing additional reform proposals for the United Nations. In my view, in the medium to long-term the next wave of reforms at the United Nations could have many implications for UNIDO. I have followed with considerable interest the discussions taking place on these proposals, particularly during meetings of the General Assembly. This has shown, from the statements made by various delegations, that all acknowledge that reform is a necessity, in order to make the UN more responsive to the challenges of today's world; however, opinions diverge on how best to achieve this. For instance, some Member States are concerned that the issue of economic development has not been given sufficient emphasis in these proposals. I will share my views on this subject with you at the next IDB, after receiving a number of high-level officials from New York, including representatives of Member States, the President of the Economic and Social Council and others.

As you are aware, this issue of UN reform is very close to my heart, precisely for the implications it could have for the future of UNIDO. My proposal on the role of the United Nations system in the economic development is contained in my recent book *Economic Development and UN Reform – towards a common agenda for action*, which is based on UNIDO's case study. This calls for greater policy coherence and operational effectiveness of the UN system in the field of economic development. I have shared this book with you and with many other friends and colleagues from the system and I am very grateful for the supportive

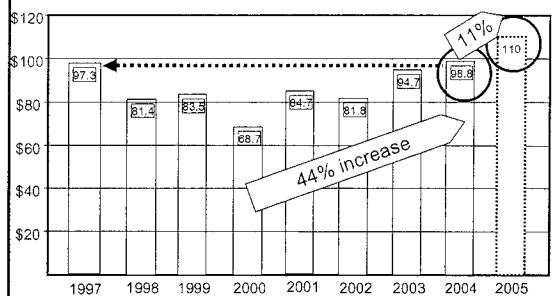
comments and encouraging feedback I have received. I do believe that in the future the discussion on security and development will have to engage more closely the aspects related with economic development. It is difficult for me to foresee national security programmes in the future based exclusively on the use of force or the analysis of military dimensions. I believe that in the future national security programmes will have to contain economic development as a core element. I count on all of you to take this argument forward for the sake of UNIDO, for the future of UNIDO and its involvement in the multilateral discussions. To conclude, let me express my sincere gratitude to all of you for the support you have given to this Organization during my term at the helm of UNIDO, I think we have achieved considerable results.

My two messages today are very simple: I think we can consider our mission accomplished in revitalizing the Organization. My second message is that we cannot rest on any laurels; there are still many challenges ahead of us, still a lot of contributions to discuss on how to improve UNIDO's involvement in the achievement of the MDGs. That is a very challenging task, which I hope this Organization will be able to carry forward properly with the wisdom and commitment of both Member States and members of the Secretariat.

I wish you luck in your deliberations.

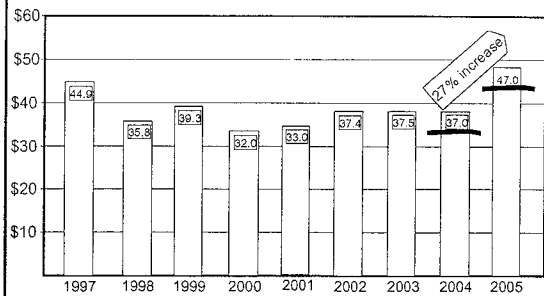
Thank you very much for your attention.

Technical cooperation Delivery 1997-2005 (in US\$ millions)



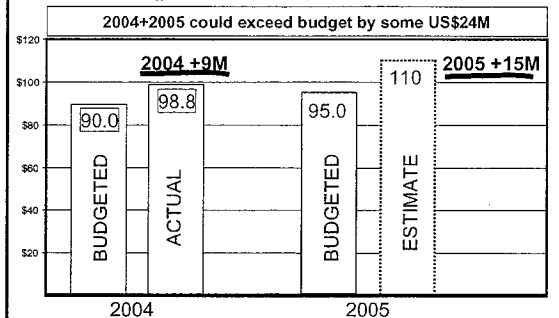
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Technical cooperation Delivery as of April 2005 (in US\$ millions)



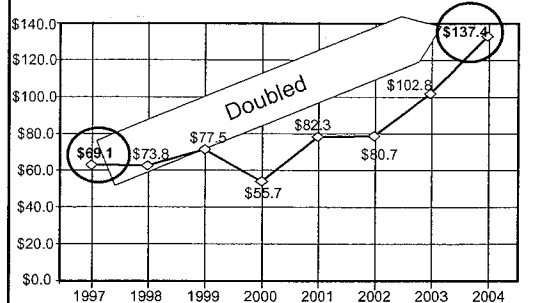
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Technical cooperation Delivery 2004-2005 (in US\$ millions)



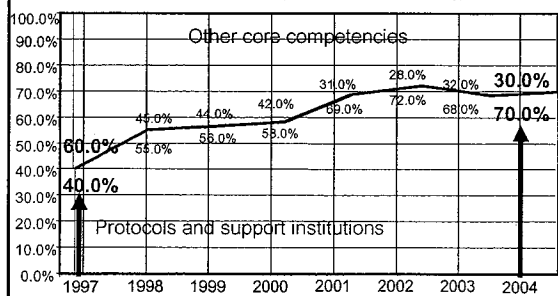
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Voluntary Contributions Received (in US\$ millions) - (includes environment programme)



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Technical cooperation Delivery
International Protocols & support institutions vis à vis
"other core competencies" (percentage of total delivery)

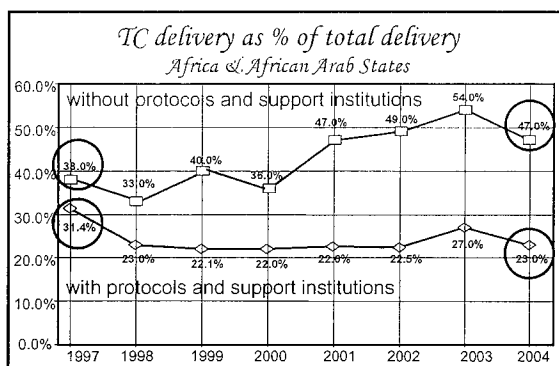


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To achieve MDGs
TC delivery in core competencies must increase

- Private Sector Development
- Trade Capacity Building
- Investment & Technology Promotion
- Agro Industries
- Industrial Governance & Statistics
- Energy

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Continuing measures to improve performance

- Establishment of four PACs to streamline approval process
- UNIDO - UNDP agreement to expand field operations and private sector focus
- RBM principles in 2006-2007 Programme and Budgets proposal

opening statement of Director-General, Carlos Magariños

Strategic Partnership with UNDP

- UNDP Agreement signed in September 2004
- Eight of 15 desks already operational
- Offices now in 38 countries – 30% increase
- Remaining 7 desks expected in next months meaning 50% increase in field presence

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Programme & Budgets 2006-2007 Regular Budget

- Programme and Budgets presented in thematic manner
- Follows RBM Principles
- Clear objectives, outcomes, performance indicators, outputs

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Programme & Budgets 2006-2007 Regular Budget

Resources at the same level as the current biennium

Budget (2004-2005)	€ 144.3 m
Security Enhancement	<u>1.7 m</u>
Requirement for 2006-2007	146.0 m
Recosting	<u>5.9 m</u>
Budget 2006-2007	€ <u>151.9 m</u>

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Programme & Budgets 2006-2007 Operational Budget

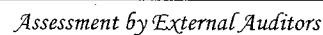
	<u>2004-2005</u>	<u>2006-2007</u>	<u>Variance</u>
Income Estimate	€21.5 m	€19.2 m	(€2.3 m)
TC Delivery	<u>\$185 m</u>	<u>\$237 m</u>	10.7% reduction \$52 m <u>28% increase</u>

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DFID Assessment of UNIDO
Major Events

- DFID informed UNIDO of Assessment: End March 2004
- Visits by DFID teams: April and May 2004
- First Draft received by UNIDO: End September 2004
- Advance clearance by DFID to use results "cautiously": November 2004
- Final draft received by UNIDO: Beginning March 2005
- Clearance by DFID to release reports: 31 March 2005
- Assessment distributed to Member States: Early April 2005

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- Regained confidence of international community
- Relevance
- Financial Stability
- Improved TC delivery & Quality of Service
- Focused Activities

- Notes previous Auditor's assessment
- Revitalization
- Organization **well run**

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UNIDO in UN Economic Development role

- Mission accomplished
- More resources for UNIDO's core competencies

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