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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION



**Opening Statement
by
Dr. Kandeh Yumkella
Director-General
at the
twenty-fourth session of the
Programme and Budget Committee**

Vienna, 3 September 2008

Mr. Chairman,
Distinguished Delegates,
Ladies and Gentlemen,

I would like to welcome you warmly to the twenty-fourth session of the Programme and Budget Committee. At the outset, I would like to express our sincere thanks to H.E. Ambassador Taous Feroukhi, for having graciously agreed to serve as Acting Chairperson in the absence of the Chairman of the Committee, H.E. Ambassador Bernhard Marfurt. Sincere thanks are also due to her bureau. Their commitment was greatly appreciated.

At the same time, may I congratulate Your Excellency, Ambassador Wibowo, and the new bureau on your election. I am confident that under your able guidance this session of the PBC will be conducted in an efficient and constructive manner.

I wish to also take this opportunity to introduce a new member of our senior management team, Ms. Sui Hui, to you. Hailing from the People's Republic of China, Ms. Sui joined UNIDO last June as the Managing Director of our Programme Support and General Management Division.

Mr. Chairman,
Distinguished Delegates,

Session agenda

Over the two days of this meeting you will address a number of important administrative and financial issues. The agenda covers the financial performance in the last biennium, the current financial situation, and proposed improvements in the financial management of UNIDO. It also includes a review of the Organization's recent resource mobilization efforts, and its proposed medium-term programme framework for 2010-2013, which will have a bearing on the resource requirements for the biennium 2010-2011. I will be referring to all of these issues in my statement to you this morning.

Financial performance in the biennium 2006-2007

Let me begin by giving you a brief update on the financial performance of the Organization in the last biennium, i.e. 2006-2007. Document PBC.24/4 reports in detail on the utilization of financial resources for the Regular and Operational Budgets. I will quote some of the notable highlights:

- Even though the overall collection rate of 93.6% was higher in 2006-2007 than in the previous biennium (91.6%), the pace of collection was slower, since significant contributions only arrived towards the end of the biennium.
- This called for prudent spending during the biennium, leading to an underutilization of the regular budget by 8.3%. The principal impact of this forced saving has been on the staffing level of the Organization, as it constitutes a major part of the appropriation. The lower than budgeted staffing level put a severe strain on existing staff resources, which in the long run is unsustainable.
- While almost all programmes suffered the effects of this resource shortfall, I accorded high priority to implementing the Regular Programme of Technical Cooperation and Special Resources of Africa, and we succeeded in almost fully programming these resources.
- The above challenges notwithstanding, UNIDO's delivery of technical cooperation recorded another impressive performance, and rose to US\$ 231 million. This represents an increase of US\$ 19.3 million, or 9.1%, over the previous biennium. In view of the financial and staffing constraints faced by the Organization, I would like to register my appreciation to my staff for having made this possible, and to thank them most sincerely for their tremendous efforts.

Mr. Chairman,
Distinguished Delegates,

Financial situation in the current year

The current biennium has started on a very sound financial footing as indicated in document PBC.24/5, which provides information up to the

end of June 2008. This information has been updated to 31 August 2008 in conference room paper CRP. 3. Here also I would like to cite just a few of the major highlights.

- The Organization is maintaining a high level of technical cooperation delivery, which amounted to US\$ 80.1 million at the end of August 2008, as compared with US\$ 72.3 million during the corresponding period of 2007. This represents an increase of almost 11%.
- It is worth noting that UNIDO has begun to implement the One-UN Programmes developed in the context of the efforts to achieve system-wide coherence in the developmental activities of the United Nations. UNIDO has received funding for programmes in four of the eight "Delivering-as-One" pilot countries, namely Mozambique, Rwanda, United Republic of Tanzania, and Uruguay from the respective One-UN Fund. Project implementation and delivery are under way in all of these four pilot countries. Additional resources have been mobilized from sources other than the One-UN Fund in Rwanda and Vietnam.
- The collection rate of assessed contributions at the end of August 2008 stood at 85.4 % as compared to 65.7 % for the same period in 2006. Again, I would like to emphasize to our Member States the need for making timely payments early in the year to enable the Organization to effectively plan its expenditures and to achieve the full implementation of its programmes.
- I am particularly pleased to inform you that Brazil has taken up payment of its arrears, which had accumulated to a significant amount. As a start, payment of € 1 million has arrived at UNIDO and been applied to the arrears. Negotiations for finalizing a payment plan for the balance are well underway.
- At the same time, we continue to exert efforts to collect arrears from former Member States. We are engaging with them at various levels in terms of building up programmatic cooperation and raising their awareness of our new priorities and the enhanced role of UNIDO within the UN system. Overall there is a more positive view of, and renewed interest in, UNIDO.

Mr. Chairman,
Distinguished Delegates,

Mobilization of financial resources

Allow me now to turn to the issue of funds mobilization. This topic is covered in greater detail in document PBC.24/7, with supplementary information being provided in our Annual Report 2007 and the conference room paper PBC.24/CRP.2. The key points arising from these documents may be summarized as follows:

- Last year UNIDO experienced a rapid growth primarily in governmental contributions, led by the European Commission, which resulted in the highest level of resources mobilized in the Organization's history. This trend is expected to continue in 2008-2009, as we are in the process of finalizing large-scale programmes for EU funding.
- Another important growth area has been multilateral funding through multi-donor trust funds in post-crisis countries, such as Iraq and Sudan. We are currently developing specific new initiatives for such multi-donor funding, including the West Africa Youth employment programme and the "Lighting up Africa" programme.
- As I mentioned earlier, we are also benefiting from the multi-donor trust funds being established to finance joint programmes with other UN agencies in the eight "Delivering-as-One" pilot countries. Also, the MDG Achievement Fund, often referred to as the Spanish Fund, is emerging as a significant new source of project funding.
- In addition, UNIDO is currently developing a number of large-scale thematic programmes in the fields of energy/climate change and persistent organic pollutants (POPs) for funding by GEF and other sources.
- Most of these funding sources, including GEF, the One-UN funds and the various EU funding schemes, require UNIDO to provide a degree of co-funding from its own resources. Unfortunately, however, our own programmable funds fall far short of the required levels. We therefore intend to set up dedicated trust fund mechanisms for donor contributions, both for co-funding with major donors and core-funding of thematic programmes, and call

on member states to contribute programmable funds to these trust funds.

Mr. Chairman,
Distinguished Delegates,

External Auditor's Report

At this point, it is my great pleasure to welcome the Auditor-General of South Africa, Mr. Terence Nombembe who, under agenda item 3, will present his final report to the Committee. I take this opportunity to offer my sincere gratitude to Mr. Nombembe and his team for their invaluable contribution during the last six years. It is a matter of particular satisfaction for me that the External Auditor has yet again expressed an unqualified opinion on the financial statements of UNIDO. His report does contain a number of important findings and recommendations, however, which I would like to highlight this morning. In doing so, I would like to assure you that I take all the suggestions and recommendations very seriously and that the Secretariat is in the process of acting upon most of them.

(1) Results-based management (RBM)

I am very pleased to note that the External Auditor has found UNIDO's strategy towards the comprehensive introduction of RBM to be fully satisfactory. In his judgement, we have demonstrated our dedication to the full integration and mainstreaming of RBM approaches and methods in the work of UNIDO and have established a sound basis for the future implementation of RBM. Specifically, the full commitment of senior management, the assignment of responsibility to line management, and the work of the RBM Steering Committee under the Chairmanship of my Chief of Cabinet, are seen as important steps in the right direction.

Meanwhile, we have taken further measures, such as the creation of a working group to strengthen the quality assurance system for technical cooperation, new approaches to better synchronize the work of technical branches and field offices (currently being piloted in Ethiopia and India), and the adaptation of impact evaluation methodologies to the specific needs of UNIDO. For the latter activity, the financial support received from the Norwegian aid agency, NORAD, is gratefully acknowledged.

(2) Internal control framework

I am grateful to the External Auditor for his specific reference to the need to further strengthen UNIDO's internal control framework. Indeed, this completely tallies with my own assessment. Two quite different aspects must be distinguished here.

On the one hand, I called for internal oversight work to be intensified with a view to identifying potential weaknesses and to better prepare UNIDO for the forthcoming challenge to both deliver higher TC volumes, and specifically to deliver large-scale TC programmes. This exercise has yielded results – and by its very nature, not only pleasant ones. In a specific case, I had to take one of the toughest decisions for any agency head to make, namely the summary dismissal of a staff member.

On the other hand, there are adjustment requirements of our internal control framework stemming from structural adjustments that are part of our management strategy. Specifically, the new field mobility policy and the associated strengthening of field office capacities for TC implementation, are a case in point. We are currently exploring new ways of doing business, of being closer to our counterparts in countries and regions, of reducing our response time and of contributing to UN system-wide coherence. I will keep pushing this process forward as I consider it necessary in the best interest of our programme countries. Clearly, there are implications for our internal control framework, which we have already started to act upon. Specifically, to give you a few examples:

- We are in the process of updating our TC Guidelines, which govern all stages of the TC cycle from design to evaluation.
- Likewise, we are reviewing our guidelines for the employment of local project personnel.
- The procurement process is being tightened through a variety of measures, including more effective system support for monitoring decentralized procurement; a clear delineation of responsibilities between field offices and Headquarters staff; and mandatory training for staff involved in procurement based on our new UNIDO Procurement Manual. This mandatory training will be followed by a test and certification. The principle I have established from now on is for procurement authority to be granted only to those staff, who have successfully completed the test.

- Meanwhile, on a related subject also having a positive impact on the internal control framework, the Organization is working towards meeting the fiduciary standards set by the Global Environment Facility. The first progress report was submitted to the GEF Council earlier this year.
- Overall guidance in strengthening the internal control framework is being provided by the newly created Operations Coordination Committee as a cross-organizational mechanism supporting the Executive Board.

Finally, I would like to note that during the course of the audit the External Auditor was provided with detailed briefings on the actions being taken, and the progress being made in streamlining and strengthening UNIDO's procedures. I appreciate that the External Auditor has incorporated these in his report.

Mr. Chairman,
Distinguished Delegates,

IPSAS and Business Process Re-engineering (BPR)

Item 5 on your agenda refers to the issue of accounting standards and specifically to UNIDO's preparations for adopting the International Public Sector Accounting Standards, or IPSAS, with effect from 1 January 2010. A full progress report on the measures being taken is presented in document PBC.24/6.

In this context, I have decided to consider the IPSAS process as an opportunity for a comprehensive review of UNIDO's administrative procedures. Thus, we are now engaged in an ambitious exercise of business process re-engineering, or BPR, with a view to exploiting whatever scope for enhanced management efficiency we may be able to identify. Particular emphasis is being placed in this connection on the effective use of information and communication technologies.

- In April 2008, the Information and Communication Services Management unit conducted a survey among UNIDO staff to identify areas in which there was a perceived need for improvement. Based on the more than 200 responses it received, the unit prepared a prioritized action plan, which included a

number of “quick wins” that have already been implemented. These include measures to simplify the use of the Aggresso project management software, the processing of consultants’ payments, the budgeting of technical cooperation projects, project reporting mechanisms, and the monitoring of decentralized procurement.

- While seeking to simplify and streamline UNIDO’s business processes, the BPR effort is also intended to identify key control points, strengthen them where necessary, and apply them effectively so as to ensure that a rigorous control framework is maintained.
- At the same time, my Managing Directors have initiated a series of informal meetings with General Service staff members in their divisions to seek their views on this subject. In doing so, they aim to ensure that the BPR concept is being applied as it should be, namely in a user-oriented manner.

I am confident that these measures to introduce BPR will not only increase staff morale and performance by removing bureaucratic impediments and red-tape, but will strengthen accountability and also have significant cost-saving effects.

Mr. Chairman,
Distinguished Delegates,

Medium-term programme framework 2010-2013

Allow me now to turn to the last substantive item on your agenda, the medium-term programme framework for 2010-2013. As explained in document PBC.24/8, we are planning to change the format of the medium-term programme framework document as we move to a fully results-based approach. This new format will be presented to the thirty-fifth session of the IDB in December.

What I can indicate at this point, however, is that the growing demand for UNIDO services in all programmatic areas will inevitably require additional regular budget resources. I reiterate that the Secretariat will spare no effort to streamline and re-engineer its delivery processes, to identify and act upon internal savings potentials, and thus go to the limit – but not beyond – of what we can contribute to ensure that UNIDO remains a benchmark of effectiveness and efficiency. This will be

reflected in my budget proposal for the next biennium. But so also will my conviction that now is the time to invest in UNIDO.

The beginning and the end of the previous UN Secretary-General's term in office, were marked by two major reports: "*Renewing the United Nations*" (1997) and "*Investing in the United Nations*" (2006).

We have done, and continue to do our part in renewing UNIDO. As an example, in the recently issued UN Policy Report of the Federal Government of Germany, it is stated that "UNIDO has become a lean, efficient implementing agency for technical cooperation, which enjoys a high degree of international recognition." May I submit however, that our resource base and our staff capacities do require strengthening so as to maintain and further build upon our well recognized achievements.

Thank you very much for your attention.