



**United Nations Industrial  
Development Organization**

Distr.: General  
15 April 2009

Original: English

**Industrial Development Board**

**Thirty-sixth session**

Vienna, 23-26 June 2009

Item 6 of the provisional agenda

**Programme and budgets, 2010-211**

**Programme and Budget Committee**

**Twenty-fifth session**

Vienna, 5-7 May 2009

Item 5 of the provisional agenda

**Programme and budgets, 2010-2011**

**Unutilized balances of appropriations**

**Note by the Director-General**

Provides historical and current information concerning unutilized balances of appropriations and includes a proposal for the use of these resources for specified priority purposes through the temporary suspension of relevant financial regulations.

**Contents**

	<i>Paragraphs</i>	<i>Page</i>
I. Executive summary . . . . .	1-5	3
II. The context . . . . .	6-12	4
III. Unutilized balances of appropriations . . . . .	13-23	6
A. Definition . . . . .	13-14	6
B. Previous measures taken by the General Conference . . . . .	15-23	6
1. Suspension of financial regulations 4.2 (b) and (c) . . . . .	17-18	7
2. Voluntary renouncement by Member States . . . . .	19-23	7
IV. The current situation . . . . .	24-26	8

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V.	Proposed use of unutilized balances in 2010-2011: investing in priority requirements .....	27-52	9
A.	One-time investment in an enterprise resource planning system .....	28-47	9
1.	Context and background .....	28-32	9
2.	Current major organizational change requirements .....	33-41	11
3.	ERP implementation in the United Nations system .....	42-43	12
4.	ERP implementation at UNIDO: road map and resource requirements ..	44-47	13
B.	One-time investment in priority technical cooperation programmes .....	48-52	14
VI.	Action required of the Committee .....	53	15

Annexes

I.	Financial regulation 4.2 and financial regulation 5.2 .....		17
II.	Previous General Conference decisions on unutilized balances of appropriations .....		18
III.	Unutilized balances of appropriations and interest income in excess of budgetary estimates due for return in 2010, as of 31 March 2009 .....		19
	Abbreviations .....		21

## I. Executive summary

1. This document is presented to the Industrial Development Board, through the Programme and Budget Committee, in conjunction with document IDB.36/7–PBC.25/7 containing the proposals of the Director-General for the programme and budgets for 2010-2011.

2. As noted in document IDB.36/7–PBC.25/7, the programme and budgets for the biennium 2008-2009 had already highlighted the acute need for strengthening UNIDO's capacity to enable the Organization to programme and implement the record amounts of extrabudgetary resources being made available to it by Member States and other donors. It had also stressed the need for further investments in UNIDO's core capacities to enable it to respond to the changing requirements of multilateral development cooperation.

3. While acknowledging that the case for such investments in the programme delivery capacities of UNIDO was even more compelling for 2010-2011 than it had been for 2008-2009, document IDB.36/7–PBC.25/7 also recognized that the proposed programme and budgets for the next biennium had to take full account of the current global economic environment. The budget for 2010-2011 has therefore been framed within a zero-real growth resource scenario.

4. Faced with a widening gap between the demand for its services and the budgetary resources available, UNIDO has reinforced its efforts to increase its operational efficiencies and reduce its operating costs, while also investing in programmatic services to help its Member States meet the specific challenges arising from changes in the global economic environment. These efforts will have to be intensified in the coming biennium, and a number of related measures will have to be taken, if UNIDO is to retain the high level of efficiency and effectiveness demanded by its Member States.

5. While these measures promise substantial increases in productivity in the medium term, they will require significant investments in the short term. To meet these investments, supplementary budgetary resources, involving increases in the assessed contributions of Member States, would be required under normal circumstances. In view of the need to formulate the budget for 2010-2011 within a zero-real growth framework, however, alternative sources of funds need to be tapped for this purpose. In this connection, the availability of a significant volume of unutilized balances provides an opportunity for financing the required investments without placing a further burden on Member States. Through this document, the Secretariat is therefore requesting Member States to approve a mechanism that would enable it to draw on these balances to finance the needed investments. The present document provides evidence on precedents for such measures as per relevant decisions taken by UNIDO's General Conference. It also proposes the specific use of unutilized balances for one-time investments in:

(a) The implementation of a comprehensive change management process and the establishment of an integrated enterprise resource planning system for UNIDO; and

(b) The development and implementation of priority technical cooperation programmes in response to the evolving global environment and critical developmental needs and priorities of UNIDO's Member States.

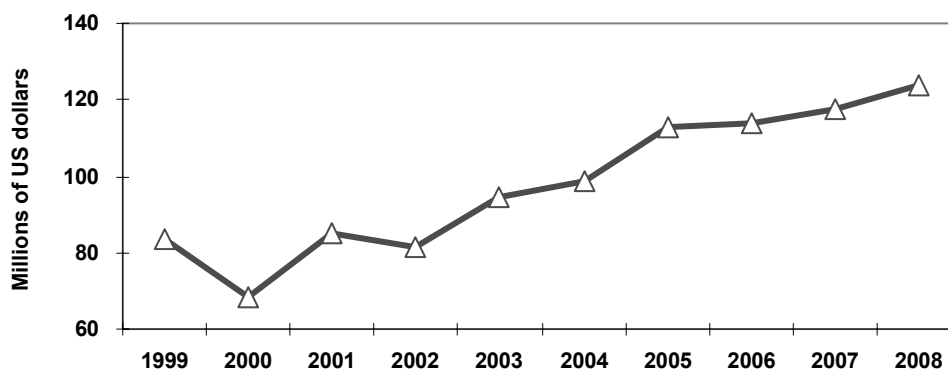
## II. The context

6. In the second half of the 1990s, UNIDO was forced to accept a series of severe budgetary reductions. Since then, the Organization has had to subsist on a progression of no-growth regular budgets. In certain cases, the budgets approved by the Member States during this period did not even fully compensate UNIDO for the rising costs faced by the Organization and thus the purchasing power of the budget gradually diminished.

7. While its budgetary resources have remained severely constrained during the past fifteen years, UNIDO has enjoyed a continuing increase in demand for, and delivery of, its services, both in terms of requests received from beneficiaries and in terms of extrabudgetary resources granted by donors for UNIDO's technical cooperation activities. This growth in funds provided for technical cooperation has been particularly strong during the past five years, reflecting a corresponding growth in the confidence of the Member States in the Organization. From less than US\$97 million prior to 2003, the volume of such funds received annually has fluctuated between US\$122 million and US\$173 million in the period from 2004 to 2008.

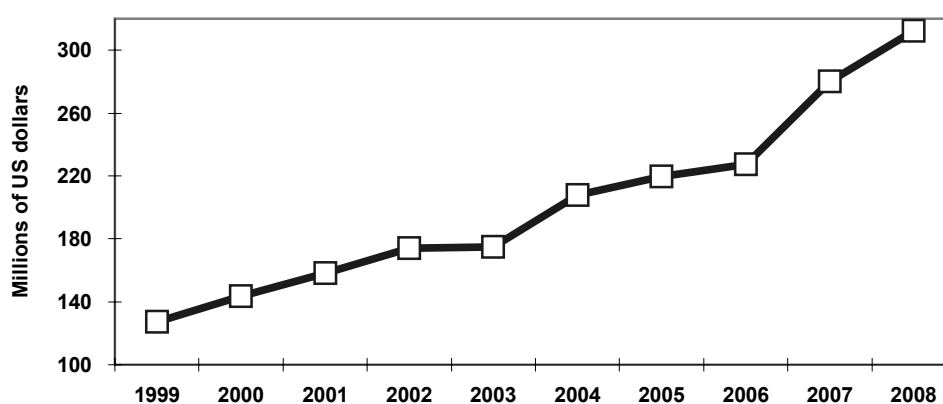
8. Despite its persistent budgetary constraints, UNIDO has been able to meet the growing demand for its services through the adoption of a series of efficiency-enhancing programmatic and administrative reforms. This has resulted in a steady increase in the value of UNIDO's technical cooperation delivery from a low point of some US\$ 69 million in 2000 to US\$123.5 million in 2008, as shown in figure 1. It may be noted in this connection that the 2008 figure was the highest since 1993, when UNIDO had more than 1,250 staff members compared to the current staff complement of less than 700.

Figure 1  
**Technical cooperation delivery, 1999-2008**



9. UNIDO's ability to meet the growing demands of its Member States with its constrained capacities is coming under increasing pressure, however. This is illustrated in figure 2, which shows a steady growth in recent years in the extrabudgetary resources accumulated for the implementation of technical cooperation activities despite the rising levels of technical cooperation delivery recorded during the same period. Thus, while the need for the critical developmental services provided by UNIDO to its Member States is rising, and being reinforced by the effects of the recent changes in the global economic environment, these same developments in the global economy are inhibiting the investments in its core capacities that the Organization urgently requires to be able to provide these services.

Figure 2  
**UNIDO funds available for future implementation, 1999-2008**



10. In order to be able to meet the looming challenge posed by an accelerating growth in demand for an expanded programmatic range of its services on the one hand, and the constraints on its ability to achieve a commensurate growth in its human and financial resources on the other, UNIDO must intensify its efforts to enhance operational efficiencies. Given that the scope for introducing further low-cost efficiency-enhancing measures is exhausted after the extensive range of reforms that the Organization has already undertaken since the mid-1990s, this will require nothing less than a comprehensive review and redefinition of its business model, with a view to boosting the productivity of the Organization as a whole, and of all of its constituent parts. Initial steps have already been taken in this direction, with the Director-General having established several working groups to assess various aspects of this subject, and himself having assumed the chairmanship of the working group on change management.

11. In this context, UNIDO has consulted widely with other organizations, especially those within the United Nations system, that have already embarked on such a process of change management, in order to benefit from their experience. All the available evidence suggests that this process will require significant investments in the adoption and adaptation of new systems, and in the training of staff members

to apply them effectively. The costs incurred for these purposes will be one-time rather than recurrent costs, and the investments, in a relatively short time, will boost the efficiency and productivity of UNIDO so that it will be enabled to meet the increasing demands for its services.

12. The Secretariat proposes to draw on the unutilized balances that it currently holds, as a potential means of overcoming the constraints imposed by the zero-real growth framework of the proposed budget for 2010-2011. These balances would be an ideal source of funding to finance the investments required to improve UNIDO's business processes and to enhance its programmatic services, and thereby to ensure its continued effectiveness as a provider of the critical developmental services required by its Member States.

### **III. Unutilized balances of appropriations**

#### **A. Definition**

13. Unutilized balances of appropriations are defined as the difference between regular budget appropriations and actual expenditures. These balances arise from the non-payment or delayed payment, within a biennium, of assessed contributions by Member States, resulting in the under-implementation of the approved programme.

14. The use of unutilized balances is governed by the financial regulations, where they are referred to as unencumbered balances. In particular, financial regulations 4.2 (b) and (c) stipulate that the unencumbered balances of appropriations shall be credited to Member States in proportion to their assessed contributions (i.e. in accordance with the respective scale of assessments). Only those Member States that have fully paid their assessed contributions for the biennium to which the credits relate are eligible to receive the credits. The full text of financial regulation 4.2 is provided in annex I.

#### **B. Previous measures taken by the General Conference**

15. Since UNIDO's conversion to a specialized agency in 1986, the unutilized balances of its appropriations have been the subject of discussion by the policymaking organs on a number of occasions. This section recalls the various actions taken by Member States with regard to these balances in the past, and seeks to inform the policymaking organs of the regulations pertaining to the issue.

16. In the past, to address important financial concerns, the General Conference has either:

(a) Suspended financial regulations 4.2 (b) and (c) and authorized the retention of unutilized balances of appropriations; or

(b) Invited Member States to voluntarily renounce their respective share for either general or specific purposes.

A historical overview of the approaches chosen for various purposes is presented in annex II.

## 1. Suspension of financial regulations 4.2 (b) and (c)

17. Under the terms of the UNIDO Constitution, the General Conference has the authority to amend, suspend or overrule the prevailing financial regulations of the Organization, either in general or in a particular instance.<sup>1</sup> This follows from Articles 8.3 (a), (c) and (f) of the UNIDO Constitution which stipulate that “the Conference shall determine the guiding principles and the policies of the Organization; ... approve the financial regulations of the Organization and supervise the effective utilization of the financial resources of the Organization; [and] take any other appropriate action to enable the Organization to further its objectives and carry out its functions.”

18. In the years from 1989 to 1997, the General Conference authorized on five occasions the suspension of financial regulations 4.2 (b) and (c). Annex II shows the purposes for which the suspension was approved. The reasons included coverage of the 1990-1991 deficit, facilitation of the work of the Organization, strengthening the statutory cash resource base, and funding the separation indemnity reserve.

## 2. Voluntary renouncement by Member States

19. In the period from 1999 to 2007, the General Conference regularly encouraged Member States to renounce their share of unutilized balances for purposes specified in the respective mandate. These included, inter alia, funding the implementation of integrated programmes, particularly for least developed countries; activities under the Business Plan on the Future Role and Functions of UNIDO; and activities in support of the Millennium Development Goals.

20. In 1999 Member States decided to adopt the so-called “opt-out” model for the voluntary renouncement of their respective shares of the unencumbered balances, whereby these shares would be utilized by UNIDO for the specified purposes if no request for a surrender of the balance was received by the Secretariat from the Member State concerned by a certain deadline set forth in the relevant decision of the General Conference.

21. In 2001, 2005 and 2007, the General Conference adopted the “opt-in” approach for the voluntary renouncement of unutilized balances. Under this model the assessed contribution of each Member State was reduced by its respective share of the unencumbered balances if no confirmation of the willingness of that Member State to surrender its share was received by the Secretariat by a certain date.

22. The purposes for which Member States were encouraged to renounce the unutilized balances varied widely, covering a broad range of regular budget and technical cooperation activities.

23. It may be noted in this connection that the adoption of the voluntary opt-in/out approach to the renouncement of unutilized balances by Member States has resulted in a gradual reduction in the shares of these balances being retained by UNIDO, from about 80 per cent in 1999 to 10 per cent in 2007. From the point of view of the Secretariat, therefore, a return to the approach adopted in the third to seventh sessions of the General Conference, involving a suspension of financial regulations 4.2 (b) and (c) would be preferable.

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<sup>1</sup> Document PBC.8/12 “Use of unutilized balances of appropriations” refers.

## IV. The current situation

24. As of 31 March 2009, the value of unutilized balances of appropriations due for distribution in 2010 amounted to €14.4 million. In addition, interest income in excess of budgetary estimates (as specified in financial regulation 5.2 (b); see annex I) amounted to €2.4 million for the 2006-2007 biennium, bringing the total to €16.8 million. A breakdown of this total by biennium is given in table 1 below. The respective shares due to individual Member States are provided in annex III. This figure will be updated as further collections of arrears are received between April and the time of the General Conference in December 2009. The updated figure will be reflected in a conference room paper presented to the thirty-sixth session of the Board and in the document on the financial situation of UNIDO presented to the thirteenth session of the General Conference.

Table 1

### Balances due to Member States in 2010 (as of 31 March 2009)

<i>Balances</i>	<i>Amount (€ million)</i>
Unutilized balances arising from biennium:	
2000-2001	2.1
2002-2003	3.2
2004-2005	1.6
2006-2007	7.5
Subtotal unutilized balances	14.4
Excess interest income	2.4
<b>Total</b>	<b>16.8</b>

25. The relatively high level of unutilized balances shown above has been due to a Member State having partially settled its arrears through a significant one-time cash payment. Other Member States are also making efforts towards the payment of their arrears. This deserves special recognition as sustained efforts are being made by both a number of Member States to meet their outstanding commitments, and by the Secretariat in pursuing the collection of the arrears. This is clearly reflected in a decline in the number of Member States without voting rights from 50 in December 2002 to 36 in December 2008.

26. Another contributing factor is the underutilization of the regular budget primarily in the biennium 2006-2007 by 8.4 per cent which was due to non- or late/uncertain payments of assessed contributions. As mentioned in document IDB.35/4 (para. 7), the collection rate was slower in the biennium 2006-2007 than in the previous biennium 2004-2005, even though the final rate was higher at the end of the 2006-2007 biennium. As a consequence, the unspent balance of collections for the biennium 2006-2007 amounts to €6.8 million. The timely payment of assessed contributions is therefore of utmost importance for allowing the full implementation of the approved programme and budgets.



## **V. Proposed use of unutilized balances in 2010-2011: investing in priority requirements**

27. Based on the precedents described above, the Secretariat is requesting Member States to consider a suspension of financial regulation 4.2 (b) and (c) in respect of the unutilized balances due in the biennium 2010-2011. In addition, the Secretariat is requesting Member States to permit the retention of interest income in excess of budgetary estimates as provided for in Financial Regulation 5.2 (b), the full text of which is provided in annex I. As also indicated above, the Secretariat proposes to use these resources for two specific purposes:

(a) To fund the implementation of a comprehensive change management process and the establishment of an integrated enterprise resource planning system for UNIDO; and

(b) To invest in priority technical cooperation programmes in response to the evolving global environment and critical developmental needs and priorities of UNIDO's Member States.

### **A. One-time investment in an enterprise resource planning system (€9 million)**

#### **1. Context and background**

28. The proposed investment is embedded in an organization-wide change management (CM) initiative as UNIDO's proactive response to the changing demands of its operating environment. Through a strategic investment in time and resources, UNIDO aims at a significant transformation of the Organization's management processes and delivery mechanisms into a desired state of enhanced results orientation, effectiveness, efficiency and risk-management. At the core of the project is the introduction of an integrated enterprise resource planning (ERP) system, which, through a one-time investment, would provide UNIDO with a proper tool of the kind commonly used by many modern organizations, which would seamlessly integrate the Organization's worldwide operations.

29. UNIDO has already taken significant measures in the past to refocus its programmes and streamline its processes:

(a) The latest comprehensive exercise drawing on external advice dates back to 1995 when a renowned consulting firm provided an analysis of internal processes and procedures together with recommendations for improvements, many of which have been implemented. More than 15 years later, best practices have radically changed.

(b) Even though processes and procedures were then modernized, prior to 2002, UNIDO used mainframe systems for its core operations concentrating mainly on finance, procurement, human resource administration and payroll.

(c) In January 2002, UNIDO introduced the euro as primary and US dollars as secondary financial reporting currency. This move required a new Financial Performance Control System (FPCS) based on a commercial software package, the

original scope of which was accounting and budgeting. Some of the mainframe legacy systems were thus replaced.

(d) Since its introduction there have been several upgrades of the FPCS. Apart from release upgrades, these have included feature upgrades in terms of the implementation of a limited procurement module and an asset and inventory register. However, major areas, such as human resources management and payroll, remained outside the domain of the FPCS and still operate on the antiquated mainframe platform established in the late 1980s.

(e) During 2008, there was a period of consolidation and reflection. In connection with preparations for the adoption of IPSAS, the Organization launched the initial stages of a business process re-engineering (BPR) programme that included documenting key administrative processes. However, it was soon realised that the scope of required changes, goes far beyond a traditional BPR exercise.

(f) In late 2008, UNIDO consulted with other United Nations organizations about their experience in implementing CM, BPR and ERP solutions. The findings were shared with Member States during a briefing session on 14 November 2008.

(g) In early 2009, the Expanded Board of Directors Retreat discussed and analysed the need for a fundamental change. A change management working group was established by the Director-General with the task to provide key inputs into the CM process.

30. Global challenges are emerging at a fast pace and UNIDO needs to react quickly and adapt to its rapidly changing environment. At the same time, UNIDO is being called upon by Member States to deliver a rapidly growing volume of technical cooperation (TC) programmes and projects, and become more results-oriented. Responding to demands for its services the Organization urgently needs to adapt its delivery mechanisms and manage larger programmes more effectively, all within the context of zero-real growth budgets.

31. Furthermore, UNIDO has outgrown its current IT infrastructure and systems. The Organization's fragmented and sometimes outdated IT systems cannot fully meet its current and, more importantly, its future needs. The systems are not sufficiently integrated and a number of business processes continue to be carried out partially on a manual basis. The current human resource administration and payroll systems still operate on a 25-year-old mainframe platform hosted by the IAEA. The availability of expertise to run these old systems is scarce and becoming more and more expensive. Furthermore, the lack of integration and connectivity between Headquarters (HQ) and field operations is a significant limiting factor in the ongoing decentralization exercise, and corresponding monitoring activities.

32. Since incremental improvements have reached their limits, there is a need for a holistic approach to steer change and manage all change interventions already started. There is an imperative for a fresh look at all of UNIDO's processes and assessment of their relevance, and for the identification and introduction of state-of-the-art system controls, the maintenance of audit trails, increasing efficiency, and most of all for measures to ensure compliance with the complex combination of external demands and the continuously evolving needs of UNIDO itself. To continue "business as usual" is no longer an option.

## 2. Current major organizational change requirements

33. **Decentralization:** Increased decentralization and the field mobility policy promulgated in Director-General's Bulletin DGB(M).97 of 21 April 2006, are leading to an enlarged role of field offices in TC implementation. A robust and flexible IT infrastructure in the field with full connectivity is vital in improving transparency, allowing better monitoring of activities and results, and full integration with HQ. The individual activities of diverse projects should be directly linked to the relevant financial transactions and key performance indicators, and should be accessible worldwide through a fully integrated project management system. An ERP system will provide field staff with greater control over their operations and deliver a field operation system that supports "one-stop shop" services. Ultimately, such a solution will improve transparency for all stakeholders.

34. **Results-based management (RBM):** To fully embed RBM in UNIDO's culture, additional systems support is needed to gather results-related information that facilitates decision-making. The RBM process has been aligned with the 2010-2013 medium-term programme framework (MTPF), as presented to Member States in document IDB.35/8 and Add.1, as endorsed by the Board in decision IDB.35/Dec.5.

35. **Global Environment Facility (GEF) fiduciary standards:** The GEF policy requiring increased accountability from its Implementing and Executing Agencies is consistent with international best practices and requirements of other donors. While minimum compliance with these GEF standards will be achieved in 2009, full compliance calls for a cultural change and additional investments in support systems.

36. **Internal control framework (ICF):** UNIDO is in the process of strengthening its internal control framework based on the recommendations of the external auditor and its own internal oversight services, as explained in document IDB.35/3-PBC.24/3. Once again, incremental improvement will not fully address the concerns voiced by the auditors.

37. **International Public Sector Accounting Standards (IPSAS):** Through decision GC.12/Dec.14, the General Conference decided, at its twelfth session, to adopt IPSAS at UNIDO. The main benefits of IPSAS include improved consistency and comparability of financial statements across United Nations system organizations; improved accountability and transparency of financial reporting to Member States, and improved internal controls and consistent information about costs and income. While UNIDO aims at achieving IPSAS compliance by 2010, further improvements in systems will be necessary to realize the full benefits of IPSAS.

38. **Harmonization of United Nations business practices:** The harmonization of business practices between United Nations system organizations is mandated by General Assembly resolution 62/208 of 14 March 2008, entitled "Triennial comprehensive policy review of operational activities for development of the United Nations system". As expressed in paragraph 113 of this resolution:

"[The General Assembly] Calls upon the United Nations funds, programmes and specialized agencies to continue to harmonize and simplify their rules and procedures, wherever this can lead to a significant reduction in the

administrative and procedural burden on the organizations and national partners, bearing in mind the special circumstances of programme countries, and to enhance the efficiency, accountability and transparency of the United Nations development system;”

39. Another intangible benefit of an ERP system can be seen as ensuring “one version of the truth” so that all reporting and monitoring are based on the same information and are transparent at any given level. Monitoring, tracking and sharing of information through one common system will aid both control and communication within the organization, which in turn will lead to an interactive work environment.

40. In order to achieve the above, the ERP system will have to integrate and upgrade all major support functions: finance, procurement, human resource management and payroll as well as programme and project management. A fully harmonized and integrated procurement process both at Headquarters and decentralized at the field level is one of the critical pillars of efficient delivery of technical cooperation services.

41. To comply with the above requirements, UNIDO must institutionalize a comprehensive change process, including a significant investment in its IT infrastructure. In order to achieve the desired results, the process changes and the IT investments must vigorously follow best practices in change management. As part of the United Nations system wide harmonization exercise, UNIDO can benefit from the experiences of the many United Nations organizations that have already progressed in similar efforts.

### 3. ERP implementation in the United Nations system

42. As of 2007, 70 per cent of United Nations system organizations had implemented ERP systems based on the most common software vendors. As a result of adapting to the needs of early implementers, these ERP systems now incorporate United Nations business practices as standard functionality, especially in the area of human resource management and payroll. The costs of implementing an ERP in the United Nations system differ in scope, depending on the needs and implementation modalities. A sample of United Nations-wide ERP costs is given in table 2 below.<sup>2</sup>

Table 2  
**Sample of United Nations-wide ERP implementation**

#	Organization	ERP System	Date begun	Currency and amount
1	UNDP	Peoplesoft	2002	\$80 m
2	UNHCR	Peoplesoft	2002	\$50 m
3	ILO	Oracle	2001	\$40 m
4	UNFPA	Peoplesoft	2003	\$21 m
5	UNESCO	SAP	2000	\$13 m
6	WIPO	Peoplesoft	2002	\$10 m (CHF11 m)
7	IMO	SAP	2003	\$6 m (£3.9 m)

<sup>2</sup> CEB ERP survey results updated 14 February 2006.

43. The IAEA, with its complex requirements, is currently in the process of procuring a new ERP system at an estimated total implementation cost of €24 million.<sup>3</sup> The ILO and IMO have already successfully undertaken through this exercise at a cost of \$40 million and \$6 million respectively. Their presentations to UNIDO Member States on 14 November 2008 made it clear that the benefits are real and substantial in the long term. It was also stressed that change implied by the implementation of an ERP are large and complex initiatives running over multiple years, and requiring significant time and resources.

#### **4. ERP implementation at UNIDO: road map and resource requirements**

44. To fully implement its change management process, supported by BPR and the introduction of an integrated ERP system, UNIDO will need significant time, staff and financial resources.

45. In 2009, the following activities will continue with existing resources:

(a) Institutionalization: Embed the change management process into the Organization by communicating the vision and empowering broad-based action. Develop and document the change management strategy, goals and scope. Set up the overall project plan with clear responsibilities, milestones, risk analysis and critical success factors.

(b) Procurement process: Initiate the procurement process for the external assistance in process documentation, for the ERP vendor and implementation partner.

46. In 2010-2011, based on the mobilization of the required resources, UNIDO will embark on the next steps:

(a) Business process reengineering: This step includes completion of a BPR exercise by applying best practice on process mapping, using external assistance. As an outcome, there will be documentation on the current processes, control points, bottlenecks, as well as a design of the desired state, including identification of process ownership and ensuring acceptance of the proposed changes.

(b) Implementation set-up: This step involves identifying appropriate human resources required, creating teams for relevant parts of the project plan, completing the procurement process by selecting the ERP vendor and implementation partner and completing preparations for the installation and deployment phase. The outcome of this step will be an enabling environment for the implementation of the ERP system.

(c) ERP installation and deployment: This step involves installing and configuring the new ERP system based on the reengineered business processes and functional requirements for the four areas: IPSAS compliant finance, procurement, human resource management with payroll, and project management. This step will also ensure communication and documentation of the new ways of working to anchor this in the organizational culture.

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<sup>3</sup> Integrated Agency-wide Information System for Programme Support, Report of IAEA, GOV/INF/2007/5.

(d) Maintenance, support, evaluation and enhancement: This post-implementation step involves maintaining and supporting the ERP system, and evaluating whether the critical success factors are being realized in a sustainable fashion. Continuous improvement of systems and processes are critical for the outcome of anchoring new approaches in the culture. Formal mechanisms will be put in place for quality assurance following a systematic approach for feedback and future developments/enhancements.

47. During the biennium 2010-2011 it is estimated that an amount of €9.0 million will be required. The table below shows the cost categories and phasing:

Table 3  
**Resource requirements for implementation of BPR/ERP system**  
(€ million)

<i>Item of expenditure</i>	<i>2010</i>	<i>2011</i>
External costs:		
Implementation partner	2.6	2.5
Change Management/BPR experts	0.5	0.3
ERP software and hardware	1.6	0.5
Subtotal external costs	4.7	3.3
Replacement cost for staff assigned to BPR/ERP	0.5	0.5
<b>Total</b>	<b>5.2</b>	<b>3.8</b>

## **B. One-time investment in priority technical cooperation programmes (€8 million)**

48. While the Secretariat proposes to use a proportion of the unutilized balances to finance the implementation of the change management programme and installation of an ERP system as described above, it also considers it critically important to invest a share of these resources in priority programme areas for UNIDO's technical cooperation services. In particular, it aims to increase the services provided by the Organization under the thematic focus area of "Poverty reduction through productive activities", which are described in detail in the medium-term programme framework 2010-2013 endorsed by Member States through decision IDB.35/Dec.5 at the thirty-fifth session of the Industrial Development Board.

49. The proposed emphasis on this thematic focus area reflects the high priority accorded by Member States to poverty reduction, and is in accordance with Millennium Development Goals, in particular MDG 1. It also responds to the growing recognition that the kind of services offered by UNIDO under this thematic priority – which focus on the development of the private sector, the promotion of entrepreneurship, and the provision of support services for small and medium-sized enterprises (SMEs), the promotion of investment and technology, and the development of agro-related industries – will make a critically important contribution in helping developing countries recover from the current economic downturn. As such, the proposal contained in this document represents UNIDO's considered response to one of the key messages presented by the World Bank to the G20 Finance Ministers and Central Bank Governors meeting in March 2009, which stressed that "a concerted effort is also needed to support the private sector,

especially SMEs, which are essential to a resumption of growth and job creation in developing countries”.<sup>4</sup>

50. The allocation of a proportion of the unutilized balances to technical cooperation programmes in the thematic priority area of “Poverty reduction through productive activities” will also enable UNIDO to assist developing countries to acquire the resilience needed to meet other challenges in the future. In particular, such programmes will enable UNIDO to assist developing countries in strengthening their agro-industrial and agri-business sectors, which will enhance their food security and their resistance to the widely anticipated recurrence of the food crisis experienced in the first half of 2008. As was indicated to Member States by the Secretariat in the thirty-fourth and thirty-fifth sessions of the Board, and in document IDB35/9, UNIDO has both the mandate and the capacity to provide critical support services in this field, but often faces serious challenges in mobilizing the required resources to undertake relevant technical cooperation projects. The availability of the unutilized balances will help to ease this resource constraint.

51. Within the broad framework presented above, UNIDO will use the resources requested through this document to focus on programmes that meet the following criteria:

- (a) Programmes that address global development issues recognized by all Member States as high priorities;
- (b) Programmes that respond to UNIDO’s central mandate and core expertise;
- (c) Programmes that support broad groups of countries rather than individual beneficiaries;
- (d) Programmes that promote the transfer of relevant experience and expertise among different developing regions (South-South cooperation); and
- (e) Programmes that, while meeting the above criteria, are facing particular challenges in terms of resource mobilization.

52. In addition to developing technical cooperation programmes in line with the above priorities and criteria, the availability of the resources requested through this document will also enhance UNIDO’s ability to respond rapidly to critical assistance requirements in urgent situations.

## **VI. Action required of the Committee**

53. The Committee may wish to recommend to the Industrial Development Board the adoption of the following draft decision:

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<sup>4</sup> *Swimming Against the Tide: How Developing Countries are Coping with the Global Crisis*, Background paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom on 13 and 14 March 2009.

“The Industrial Development Board:

“(a) Takes note of document IDB.36/12–PBC.25/12;

“(b) Recommends to the General Conference:

“(i) The temporary suspension of financial regulations 4.2 (b) and (c) to allow UNIDO to retain the unencumbered balance of appropriations;

“(ii) The temporary suspension of financial regulation 5.2 (b) in respect of interest income in excess of budgetary estimates;

“(iii) To request the Director-General to use the resources so obtained for the purposes described in IDB.36/12–PBC.25/12;

“(c) Requests the Director-General to pursue his efforts and contacts with Member States and former Member States to effect the collection of arrears.”



## Annex I

### Financial regulation 4.2

(a) Regular budget appropriations shall be available for obligation during the fiscal period to which they relate;

(b) Regular budget appropriations shall remain available for twelve months following the end of the fiscal period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during that fiscal period and to liquidate any other outstanding obligation of that fiscal period. The unutilized balance of the appropriations at the end of a fiscal period shall be surrendered to the Members at the end of the first calendar year following the fiscal period after deducting therefrom any contributions from Members relating to that fiscal period which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provisions of financial regulations 4.2 (c) and 5.2 (d);

(c) At the end of the twelve-month period referred to in subparagraph (b) above, the then remaining balance of any regular budget appropriations retained shall be reported in detail by the Director-General to the External Auditor for examination and review and, after deducting therefrom any contributions from Members relating to the fiscal period of the appropriations which remain unpaid, shall be surrendered to the Members in proportion to their assessed contributions at the end of the second calendar year following the fiscal period to which the appropriations relate, provided, however, that before the respective share of the balance is surrendered to any Member that has outstanding regular budget obligations to the Organization, those obligations shall first be brought to account. Any unliquidated regular budget obligation of the fiscal period in question shall at that time either be cancelled or, where the obligation remains a valid charge, transferred as an obligation against the current appropriations.

### Financial regulation 5.2

For each of the two years of the fiscal period, the assessment of Members shall be adjusted in respect of:

(a) Supplementary appropriations for which contributions have not yet been assessed;

(b) Half of the estimated miscellaneous income to the regular budget for the fiscal period and credits in respect of income not previously taken into account.

## Annex II

### Previous General Conference decisions on unutilized balances of appropriations

#### 1. Suspension of financial regulations (GC.3–GC.7)

<i>General Conference decision</i>	<i>Biennium</i>	<i>Decision/purpose</i>
GC.3/Dec.17 (c) GC.4/Dec.15 (c) (iii)	1986-1987	First for unspecified purpose (GC.3), and second to cover 1990-1991 deficit (GC.4)
GC.4/Dec.15 (d)	1988-1989	Facilitate work of the Organization
GC.5/Dec.14 (e)	1990-1991	Strengthen statutory cash resource base
GC.6/Dec.15 (e)	1992-1993	Partially fund separation indemnity reserve
GC.7/Dec.17 (d) (ii)	1994-1995	Fund separation indemnity reserve (staff separation)

#### 2. “Opt-in/out” voluntary renouncements at the following sessions (GC.8–GC.12)

<i>General Conference decision</i>	<i>Biennium</i>	<i>Purpose</i>
GC.8/Res.4	1992-1993 1996-1997	For funding integrated programmes, particularly for LDCs; and for advancing implementation as specified in the Business Plan on the Future Role and Functions of UNIDO.
GC.9/Dec.10 (f) GC.10/Dec.11	1992-1993 1996-1999	For regular budget and/or for technical cooperation activities of UNIDO (GC.9). Time frame was set by GC.10 , i.e. 31/12/2003 to utilize funds for which no response was received by then.
GC.10/Dec.11	1992-1993 1996-2001	Some Member States renounced their respective shares for activities such as post-crisis, millennium development goals, technical cooperation and towards core programmes.
GC.11/Dec.13	1992-1993 1996-2003	Renouncements were made for decentralization of regular budget activities, Industrial Development Fund (IDF) general and special purpose contributions.
GC.12/Dec.10	1992-1993 1996-2005	Amounts renounced were used for general core purposes, GEF activities, and IDF special purpose programmes.

## Annex III

**Unutilized balances of appropriations and interest income  
in excess of budgetary estimates due for return in 2010,  
as of 31 March 2009\*  
(Euros)**

<i>Member State</i>	<i>Amount due</i>
Afghanistan	641
Albania	876
Algeria	16 092
Angola	578
Argentina	212 235
Armenia	555
Austria	239 185
Azerbaijan	1 142
Bahamas	2 696
Bahrain	5 050
Bangladesh	1 792
Barbados	2 172
Belarus	6 058
Belgium	244 104
Belize	144
Benin	428
Bhutan	200
Bolivia (Plurinational State of)	1 714
Bosnia and Herzegovina	838
Botswana	2 939
Brazil	368 795
Bulgaria	3 808
Burkina Faso	543
Burundi	144
Cambodia	474
Cameroon	2 401
Cape Verde	186
Central African Republic	144
Chad	144
Chile	42 437
China	383 542
Colombia	42 210
Comoros	144
Congo	262
Costa Rica	5 138
Côte d'Ivoire	2 409
Croatia	9 879
Cuba	7 517
Cyprus	10 212
Czech Republic	47 186
Democratic People's Republic of Korea	2 270
Democratic Republic of the Congo	790
Denmark	172 661
Djibouti	144
Dominica	144
Dominican Republic	5 847
Ecuador	4 415
Egypt	21 472

<i>Member State</i>	<i>Amount due</i>
El Salvador	4 005
Equatorial Guinea	293
Eritrea	200
Ethiopia	1 054
Fiji	856
Finland	143 522
France	1 650 176
Gabon	2 388
Gambia	144
Georgia	846
Germany	2 318 504
Ghana	1 030
Greece	136 170
Grenada	144
Guatemala	5 715
Guinea	577
Guinea-Bissau	144
Guyana	186
Haiti	513
Honduras	1 113
Hungary	27 200
India	104 483
Indonesia	37 041
Iran (Islamic Republic of)	39 928
Iraq	11 926
Ireland	86 863
Israel	109 886
Italy	1 302 837
Jamaica	1 368
Japan	3 320 342
Jordan	1 971
Kazakhstan	7 378
Kenya	1 714
Kuwait	31 945
Kyrgyzstan	313
Lao People's Democratic Republic	199
Lebanon	3 935
Lesotho	186
Liberia	186
Libyan Arab Jamahiriya	22 755
Lithuania	4 458
Luxembourg	20 012
Madagascar	607
Malawi	337
Malaysia	55 988
Maldives	175
Mali	428
Malta	3 789

<i>Member State</i>	<i>Amount due</i>
Mauritania	144
Mauritius	2 896
Mexico	312 870
Monaco	549
Mongolia	202
Montenegro**	-
Morocco	11 761
Mozambique	158
Myanmar	1 476
Namibia	1 549
Nepal	856
Netherlands	453 152
New Zealand	60 789
Nicaragua	144
Niger	186
Nigeria	9 972
Norway	178 119
Oman	16 319
Pakistan	12 024
Panama	3 727
Papua New Guinea	931
Paraguay	2 807
Peru	21 094
Philippines	19 644
Poland	109 761
Portugal	105 296
Qatar	12 537
Republic of Korea	367 067
Republic of Moldova	532
Romania	14 640
Russian Federation	301 149
Rwanda	181
Saint Kitts and Nevis	160
Saint Lucia	489
Saint Vincent and the Grenadines	144
Samoa**	-
Sao Tome and Principe	144
Saudi Arabia	175 989
Senegal	1 054

<i>Member State</i>	<i>Amount due</i>
Serbia	4 221
Seychelles	428
Sierra Leone	147
Slovakia	12 664
Slovenia	20 113
Somalia	144
South Africa	77 277
Spain	668 063
Sri Lanka	4 388
Sudan	1 380
Suriname	343
Swaziland	531
Sweden	223 822
Switzerland	327 227
Syrian Arab Republic	13 436
Tajikistan	250
Thailand	59 060
The former Yugoslav Republic of Macedonia	1 228
Timor-Leste	103
Togo	144
Tonga	144
Trinidad and Tobago	4 225
Tunisia	6 436
Turkey	94 953
Turkmenistan	908
Uganda	1 222
Ukraine	13 772
United Arab Emirates	58 972
United Kingdom	1 571 106
United Republic of Tanzania	1 037
Uruguay	12 151
Uzbekistan	3 034
Vanuatu	144
Venezuela	37 958
Viet Nam	3 571
Yemen	1 426
Zambia	428
Zimbabwe	1 675
Total	16 769 231

\* In accordance with financial regulation 4.2(b) and (c), only those Member States are eligible to receive the credit due that have fully paid their assessed contributions relating to the respective biennium. Others will be distributed when Member States pay their outstanding arrears for the respective biennium.

\*\* New Member States.

## Abbreviations

BPR	business process re-engineering
CEB	United Nations System Chief Executives Board for Coordination
CM	change management
DGB	Director-General's bulletin
ERP	enterprise resource planning
FPCS	Financial Performance Control System
GC	General Conference
GEF	Global Environment Facility
HQ	Headquarters
IAEA	International Atomic Energy Agency
ICF	internal control framework
IDB	Industrial Development Board
IDF	Industrial Development Fund
ILO	International Labour Organization of the United Nations
IMO	International Maritime Organization of the United Nations
IPSAS	International Public Sector Accounting Standards
IT	information technology
LDC	least developed country
MDG	Millennium Development Goal
MTPF	medium-term programme framework
PBC	Programme and Budget Committee
RBM	results-based management
SME	small and medium-sized enterprise
TC	technical cooperation
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
US	United States of America
WIPO	World Intellectual Property Organization