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Unutilized balances of appropriations

Revised proposal by the Director-General

In compliance with conclusion 2009/3, paragraph (d), presents Member States with a revised proposal on the use of the remaining amount of unutilized balances of appropriations.

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I. Executive summary

1. At the twenty-fifth session of the Programme and Budget Committee the Secretariat presented a proposal for the retention of the unutilized balances of appropriations due to Member States in 2010 through the temporary suspension of the relevant Financial Regulations of UNIDO. This proposal, contained in document IDB.36/12-PBC.25/12, provided for these resources amounting to €16.8 million as of 31 March 2009 to be used for one-time investments in two important areas: change management (CM) and the formulation and implementation of specific priority technical cooperation activities. After due consideration, the Programme and Budget Committee decided that a proportion of the unutilized balances, amounting to €6.8 million, should be returned to Member States in accordance with the relevant financial regulations, and that the Secretariat should provide the Member States with a revised proposal for the return or use of the remaining amount of unutilized balances¹ (Conclusion 2009/3). The present document provides the revised proposal of the Director-General.

2. In preparing this revised proposal, the Director-General has been guided primarily by the need to ensure that UNIDO remains prepared and able to fulfil its mandate and meet its commitments to Member States in the face of the rapidly changing global economic landscape. It must be noted that several major funders of UNIDO programmes, including the Global Environment Facility (GEF) and the European Commission, are introducing extensive and complex new requirements with which all of their partners, including UNIDO, need to comply within a short period. The Secretariat has therefore considered carefully the challenges that the Organization is likely to face in the coming years, and the proactive measures that it will need to take in order to be able to meet and overcome these challenges. In particular, it has identified an urgent need to make significant new investments in certain priority areas in order to ensure its eligibility for funding from major donors, and to be able to sustain its capacities to provide effective support to its Member States in their development efforts into the foreseeable future.

3. It is the Secretariat's considered view that the above-mentioned investments need to be made without delay. Given the "one-time" nature of the required investments, the funds needed for them would normally have been requested through a supplementary budget. In recognition of the fact that recent developments in the international economy have made additional funding difficult, the Secretariat has identified the retention of the unutilized balances, through a temporary suspension of the relevant financial regulations, as the most appropriate option for financing these investments.

4. As indicated in the original proposal submitted in document IDB.36/12-PBC.25/12, the Secretariat continues to regard the CM process as the most important investment requirement facing the Organization. Its adoption will significantly enhance UNIDO's capacities to meet the anticipated challenges. However, its effective introduction will also require a number of adjustments to UNIDO's business practices and processes, as well as the acquisition and installation of an appropriate enterprise resource planning (ERP) system.

¹ Updated figures on the remaining unutilized balances of appropriations will be provided in a conference room paper.

A comprehensive review of UNIDO's needs in this area, and a careful re-assessment of the costs of installing and operationalizing such systems, has led the Secretariat to conclude that €8 million is the minimum amount that will be needed for the introduction of an effective CM programme. The proposal contained in the present document therefore foresees an investment of that magnitude for this programme.

5. The Secretariat further considers that an additional sum should be made available from the unutilized balances to initiate UNIDO programmes that can respond effectively to both the food crisis and the energy crisis. This amount, comprising the remaining €2 million from the resources available as of 31 March 2009 plus any other additional collection of unutilized balances by the end of 2009, will be used for the rapid development of large programmes to respond to these critical issues, which could be funded from other sources. This would enable UNIDO to make an effective contribution to the efforts of Member States to address these crisis areas.

6. Through the present document, the Secretariat reiterates its request to be permitted to retain the remaining amount of unutilized balances due for distribution in 2010 through a temporary suspension of the relevant financial regulations. As indicated above, the resulting funds will be used for one-time investments in CM, thereby avoiding the need for a supplementary budget, and for priority technical cooperation programmes. A more detailed explanation of the proposed use of these funds is presented below to facilitate the deliberation of this proposal by the Member States.

II. Investment in change management

A. Introduction

7. In recent years, UNIDO's mandate – based on the objective of promoting industrial development for poverty reduction, inclusive globalization and environmental sustainability – has assumed an enhanced role in the global development agenda. The Organization is now recognized as a highly relevant, specialized and efficient provider of key development services in support of the interlinked challenges of reducing poverty through productive activities, promoting the integration of developing countries in global trade, fostering environmental sustainability in industry, and improving access to energy for development.

8. In this context, the demand for UNIDO services has increased rapidly and the volume of funds available for future delivery has reached a new record of more than \$310 million. In addition, the number of fundable technical cooperation programmes in various stages of development is such that an increase of annual delivery levels to \$250 million is within easy reach in a medium-term perspective of four to six years. However, both governmental donors (including the European Commission) and dedicated funds (such as the GEF, the Montreal Protocol, and multi-donor trust funds) are introducing new requirements, which are more demanding and complex with regard to the way in which projects funded by them have to be implemented. Important changes in UNIDO's management processes and accounting systems are therefore becoming necessary to enable the Organization to comply with these new modalities. It may be recalled in this connection that the

dedicated funds provide more than half of the overall funding generated by UNIDO for its projects and programmes.

9. The GEF and the European Commission in particular are changing the way in which they cooperate with United Nations system organizations. Rather than focusing on individual project-based processes and controls, the new approach being introduced by them looks at the whole organization and its internal processes with a view to determining with which organizations they can build a long-term relationship. The GEF has recently worked with all its partner organizations to analyse their respective requirements in order to ensure that all of them comply with its very wide-ranging “fiduciary standards” within a reasonable time frame. These include eleven different areas covering the whole project cycle, as well as such issues as the accounting system, and internal and external audit mechanisms. Similarly the European Commission is working with its partners on the so-called “Four Pillar” review exercise in order to ensure common standards for accounting, audit, internal control and procurement processes.

10. This innovative approach requires considerable adjustments from all organizations, including UNIDO, not only in their overall operational mechanisms and the ways in which they manage projects and programmes, but also in the supporting information technology (IT) systems, which need to be fully compatible with the changed processes. In addition, UNIDO needs to respond to new requirements originating from its efforts to enhance the integration of the results-based management (RBM) approach in all its systems, and to the requirement to fully integrate its field-based staff in its various operations so that they can play a direct role in the decentralized delivery of services. This is an essential aspect of the closer integration at the country level required under the Delivering as One (DaO) initiative, and for full participation in multi-donor trust funds. This in turn will imply major changes in the Organization’s modus operandi, such as a different definition and delineation of roles, responsibilities and accountability of all staff involved in delivering services; the delegation of increased authority to staff in the field for the entire programme and project cycle; changes in process steps; and adaptation to changing risks at strategic, operational, and compliance levels. It is clear that a substantial investment programme to ensure that the required changes are implemented in the next few years is unavoidable. Without the thorough changes envisaged in the Organization and its systems, UNIDO may not qualify for partnership with, and funding from, several major funds and donors in the future. The Organization would thus not be able to achieve its full potential as an important provider of technical cooperation services for the benefit of its Member States.

11. The intensifying efforts to achieve increased inter-agency coherence at the country level, in accordance with the DaO approach, are also generating increased pressures for a system-wide harmonization of business practices. As indicated in several recent reports submitted to the Member States on the subject of United Nations system-wide coherence (IDB.34/7, IDB.35/12 and IDB.36/15), the need to achieve such harmonization is posing significant challenges for UNIDO. The importance of this harmonization will increase further in the coming years as a result of the scheduled roll-out by about ninety countries of their United Nations Development Assistance Framework (UNDAF) and DaO self-starter programmes. This gives an added impetus for UNIDO to review and adjust its business processes to facilitate the required harmonization of business practices.

12. The urgent need for the establishment of appropriate systems and processes is also underlined by several observations of UNIDO's previous and current external auditors in their recent reports issued as documents IDB.35/3-PBC.24/3* and IDB.36/8-PBC.25/8. Examples of these observations include the following:

(a) UNIDO's internal control framework should be strengthened, at both Headquarters and field offices, and immediate remedial measures need to be introduced through new and improved procedures, systems, controls, supervision and administration (IDB.35/3-PBC.24/3*, paragraph 9);

(b) The financial performance control system (FPCS) is largely limited to financial data and does not support human resource and procurement functions in planning and decision-making; the procurement function should therefore be computerized with a centralized database for all procurement activities, and with an institutionalized system of electronic approvals during the procurement process. (IDB.36/8-PBC.25/8, paragraphs 11.4 and 3.7ii);

(c) A refined RBM monitoring system should be considered in order to improve the quality of the RBM framework adopted in the 2008-2009 programme and budgets (IDB.35/3-PBC.24/3*, paragraph 24);

(d) While implementing the process of decentralization to the field offices, the operational requirements of the field offices should be kept in view so as to ensure the speedy and effective implementation of projects and programmes (IDB.36/8-PBC.25/8, paragraph 7.8i).

B. The way forward

13. Based on the assessments undertaken by the Secretariat, the Organization needs to initiate a proactive response to the changing demands of its operating environment that would have to address four specific needs:

(a) An enhanced integration of the Organization's various management systems and practices, including project management, human resource management (HRM), procurement services and financial performance;

(b) An increased linkage between the Organization's Headquarters and field-level operations to ensure the efficient and effective delivery of UNIDO's technical cooperation services to Member States;

(c) An increased harmonization of the Organization's management systems with those employed by other development agencies of the United Nations system, with a view to ensuring a high level of inter-agency coherence within the framework of the DaO initiative; and

(d) An updating and upgrading of UNIDO's IT infrastructure to meet these needs.

14. As indicated in the original proposal submitted to the twenty-fifth session of the Programme and Budget Committee in document IDB.36/12-PBC.25/12, UNIDO intends to meet these needs through an organization-wide CM initiative aimed 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. As also indicated in that proposal, the introduction of an integrated enterprise resource planning (ERP) system lies at the core of the proposed effort to achieve this transformation. Through a strategic one-time investment, such a system 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. Since similar systems have already been adopted by many other organizations within the United Nations system, it would also help to promote the desired system-wide coherence through a harmonization of business practices between agencies. Annexes I and II provide information on current UNIDO's IT systems and infrastructure in the context of a gap analysis between the current and the desired state.

C. Change management strategy

15. The key dimension of the Secretariat's proposed CM strategy is a closer integration of the three pillars of the organization: people, structure and management systems. The anticipated impact of the proposed strategy on these three organizational components may be summarized as follows:

(a) *People*: The process will create a new culture of empowerment and accountability, incorporating new skills and work practices based on results-based performance schemes and clear communication networks;

(b) *Structure*: The structure will be adapted to increase delivery capacity, leading to further decentralization and a seamless integration of Headquarters and field operations;

(c) *Management systems*: A comprehensive business process re-engineering (BPR) exercise, along with the implementation of a fully integrated organizational-wide ERP system, will enable UNIDO to regain human resource capacities currently absorbed in administrative tasks.

16. The proposed BPR exercise will be an important enabler in the CM process, facilitating the implementation of the CM vision and supporting the current change initiatives. It will also lead to an enhancement of the overall effectiveness and efficiency of UNIDO's processes, procedures and practices, as well as a redefined accountability framework, including proper control points.

17. The implementation of an ERP system is the key tool that will build on the BPR exercise and implement more efficient, transparent and simpler processes. The ERP system will fully integrate the four functional areas of project management, finance, procurement and HRM.

18. The above strategy is not unique in the United Nations system: as of 2007, 70 per cent of United Nations system organizations had fully implemented ERP systems based on the most common software vendors. These ERP systems differ in scope, depending on the needs and implementation modalities, and the costs vary between \$6 million (IMO) and \$80 million (UNDP).

D. Expected results

19. The results and benefits that the CM process will bring to both UNIDO and to its external and internal stakeholders can be summarized as follows:

Programmatic and stakeholder-related:

(a) Enhanced ability to meet increasing demands for services and respond efficiently and effectively to changing requirements and future challenges;

(b) Improved delivery mechanisms, ensuring the provision of quality services to recipients in a timely manner and the sustainability of the programme and project interventions;

(c) Improved means of reporting to Member States, donors and recipients, incorporating measurable results following RBM principles;

(d) Increased capacity to handle large and complex programmes and projects with varying donor requirements;

(e) A full integration of field operations with those at Headquarters to ensure improved service delivery and a more effective contribution to the DaO initiative;

(f) Improved tools for integrated Organization-wide management of UNIDO's relationships with stakeholders, including Member States and donors; and

(g) A consistent and transparent reporting and monitoring mechanism at any given level.

Organizational:

(a) Improved management and integration of programme and project cycles and global forum activities;

(b) A project management system that fully supports each stage of the technical cooperation programme and project cycle at both Headquarters and field levels;

(c) A re-design of support services (such as procurement, finance, HRM and IT) around the programme and project cycle to increase value addition, efficiencies, and accountability;

(d) Up-to-date system controls with the maintenance of audit trails;

(e) Improved risk management and operational decision-making processes, incorporating early warning systems, automation of manual processes, electronic workflow and signatures;

(f) Simplification and standardization of business processes;

(g) Elimination of redundant systems, especially those that do not communicate with each other, such as FPCS and the mainframe-based applications;

(h) Improvement of staff professionalism by introducing new skills based around best-practice processes and decision-making;

(i) Integration of planning, budgeting and forecasting tools to allow improved alignment of strategic and operational objectives;

(j) A business-driven implementation enabling the improvement of systems and overall business performance; and

(k) Improved utilization of UNIDO's organizational capacities both at Headquarters and field levels to achieve higher throughput.

E. Road map

20. The CM strategy will be implemented between 2009 and 2011. The road map includes the following:

(a) Development, documentation and institutionalization of the CM strategy, and its scope and goals, and formulation of the project plan;

(b) Implementation of the comprehensive BPR exercise;

(c) Procurement of the ERP system and contracting of the implementation partner;

(d) The installation of the ERP system, staff training, system deployment and documentation; and

(e) The maintenance, support, evaluation and enhancement of the CM strategy.

F. Financial plan

21. During the biennium 2010-2011 it is estimated that a total amount of €8 million will be required. The table below shows the cost categories (in million euros) and phasing of the proposed CM-related activities.

Item	Item of expenditure	Total	2010	2011
1	Replacement cost for staff assigned to CM process	0.5	0.3	0.2
<i>External costs:</i>				
2	CM and BPR experts	0.6	0.4	0.2
3	Implementation partner (consultancy)	4.5	2.2	2.3
4	Training (consultancy)	0.3	0.2	0.1
Sub-total external costs		5.9	3.1	2.8
<i>ERP software & hardware costs:</i>				
5	ERP software licences fees	1.2	1.2	-
6	ERP software maintenance	0.7	0.3	0.4
7	Hardware and installation	0.2	0.1	0.1
Subtotal software and hardware		2.1	1.6	0.5
Total		8.0	4.7	3.3

Notes:

- Item 1: Replacement cost for internal staff temporarily assigned to the CM process.
- Item 2: The CM and BPR experts will provide consultancy services by offering guidance in the specific areas of CM and BPR best practice.
- Item 3: An implementation partner, such as a specialized consulting firm, will provide specific expertise and transfer of knowledge on the ERP system to the internal team. The partner will also act as an interface between the project team and the ERP system vendor.
- Item 4: Costs for training UNIDO's internal team dedicated to managing the BPR processes and ERP system.
- Item 5: The ERP software licences will cover the four functional areas: project management, finance (including reporting), HRM (including payroll) and procurement (including asset management and travel). The estimates are based on an Enterprise Licence Agreement that may use parameters such as the organizational budget and number of staff.
- Item 6: The maintenance costs are estimated at 22 per cent per annum of the software licence fees.
- Item 7: The hardware costs will be used for the procurement and installation of servers for the testing and production stages.

III. Investment in priority technical cooperation programmes

22. In the past few years the world has, in rapid succession, seen three separate but interrelated crises of global proportions that, while affecting all, are impacting most seriously on the weakest societies and countries. The almost simultaneous food and energy crises, caused by a rapidly increasing imbalance between supply and demand of two commodities critical for human life and security are directly threatening the achievement of the Millennium Development Goals and are setting back many developing countries while threatening the lives of millions. The global economic crisis that is still unfolding is aggravating the situation as prices of key export commodities of many developing countries have fallen, and food prices, although reduced, remain higher than before the crisis.

23. Within the three thematic priorities of UNIDO two specific sets of interrelated activities can make important and direct contributions to addressing the food and energy emergencies and at the same time contributing directly to the reduction of poverty. These are:

(a) Activities aimed at increasing food security in terms of the availability, accessibility and safety of food. This would include UNIDO activities aimed at post-harvest loss reduction; food value chains and related agri-business development; food safety and quality control; and the equitable integration of small-scale agro-enterprises into market-oriented systems;

(b) The development of renewable energy in rural areas linked with productive activities. As mentioned above, post-harvest loss reduction and improved food processing and food safety are major issues in rural areas. Since their implementation requires energy, the development of renewable energy sources and the promotion of their utilization for productive uses would also make a major contribution to dealing with the food crisis.

24. UNIDO activities in these two areas could be scaled up considerably through the use of funds available from the unutilized balances, thereby increasing the ability of UNIDO to assist its Member States in their response to the current crises.

While the overall amounts available from this source would only be sufficient to finance a few individual projects, and would hence not produce a large impact if used directly for project implementation, they could be used to set up dedicated funds for these two high-priority focus areas. The Secretariat therefore proposes to use the available funds to initiate the creation of such funds in these two areas based on the very successful model and experience of the Trade Capacity-building (TCB) Trust Fund.

25. This Fund was established during the Finance for Development Conference in 2002 with a view to responding rapidly to requests of Member States to assess their needs in the area of TCB and develop specific projects in response. Using some €2 million provided by five donors, a large portfolio of programmes was developed at the request of Member States, focusing on situations with direct funding prospects. To date, about \$15 million has been mobilized for several of the projects developed in this manner, which are under implementation. In addition a large portfolio of formulated projects in all regions, with a value of approximately €400 million, is available. This is expected to attract considerable further funding from the European Commission, the Enhanced Integrated Framework,² and other donors.

26. It is proposed to allocate an amount of at least €1 million³ to each of these two priority areas in order to establish two dedicated trust funds. They would be managed according to the model of the TCB Trust Fund, with clear and specific criteria, and focused on the development and promotion of fundable programmes. This could be expected to result in such programmes worth at least ten times the invested amount, providing strong leverage. In addition, these core amounts could form the basis for further voluntary contributions to the two trust funds by Member States, resulting in further leverage and enabling a rapid expansion of activities in these two international priority areas.

A. Trust Fund One: Increased food security through agribusiness and agro-industry promotion

27. The prices of commodities in general, and food in particular, have escalated dramatically within the past few years, exacerbating hunger in the world's poorest countries, and posing serious economic and social risks. Although food prices have declined in recent months, they still remain high in the most vulnerable countries, and the situation is considered likely to persist in the coming years.

28. UNIDO fully recognizes the urgency of short-term measures to feed the hungry but stresses that while food aid can assist populations with emergency needs, such assistance will not address the serious imbalance of the markets, and the

² The Enhanced Integrated Framework (EIF) is a mechanism by which least developed countries can access Aid-for-Trade resources from their development partners. It is based on the Integrated Framework (IF) inaugurated in October 1997 at the WTO High-level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development by six multilateral institutions (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO). The EIF began to be implemented in its present form after May 2007.

³ The exact amount with which each of these trust funds will be initially endowed will depend on the full amount of unutilized balances accumulated by the end of 2009.

medium and long-term challenges faced by the most affected countries. The structural causes of food insecurity require a broad response by reducing internal and external market barriers and, most importantly, by strengthening the productive capacities of affected countries and thereby increasing the incomes of their populations. Therefore, it is essential and urgent to address food insecurity through structural solutions. Since about 75 per cent of the poor live in rural areas, a particular focus of UNIDO's activities to address these structural problems is on the promotion and development of the agro-industrial sector in line with the principles of sustainable growth.

29. Within the thematic priorities of UNIDO, the following areas of activity are particularly relevant in making direct contributions to increasing the availability of, and access to, food:

(a) Supporting the development of food value chains, including interventions to enhance the productivity and competitiveness of the targeted chains. The focus of these interventions is on increasing the local processing of food and value-addition, reducing post-harvest losses, and improving food quality and safety to meet market requirements; and

(b) Fostering the equitable integration of small-scale agro-enterprises into market-oriented systems, with special emphasis on rural producers and areas.

1. The problem

30. The current lack of food security and the persistence of hunger in several parts of the world are unacceptable. There is enough food but it does not reach those that need it most. In the most vulnerable regions, the problem and challenge of achieving food security and eliminating hunger is of a broad and complex nature. It encompasses a variety of issues related to:

- (a) Insufficient access to food due to inadequate incomes;
- (b) Low levels of education and health;
- (c) Low levels of agricultural and agro-industrial productivity;
- (d) Environmental (including energy) concerns;
- (e) Conflicts and climatic disasters; and
- (f) The effects of international trade and globalization.

31. The present situation regarding food consumption patterns and prospects for market growth within regions and countries is very diverse. At the same time, urbanization is transforming the domestic markets of developing countries, and South-South trade is emerging as one of the main sources of the expansion of the global agri-food system. Food products and other agricultural commodities worth billions of dollars are being traded between developing countries, and imports of food by the poorest developing countries are rising considerably, sometimes with negative implications for their domestic production.

32. However, only a small number of developing countries are dominating the trade of value added agri-food products. There are clear reasons behind their success, which depends on:

(a) The manner in which producers (especially smallholders) are organized, and the degree to which they are equipped with the latest knowledge and technologies available;

(b) The availability of policies to correct distortions or create an enabling environment for enterprise development; and

(c) The country's openness to international trade.

2. The UNIDO initiative

33. UNIDO has been working on the identification of mechanisms to transfer the required knowledge to increase the number of countries benefiting from the South-South trade and, at the same time, enhance food security within the poorest developing countries. Based on the experience of the successful countries, UNIDO intends to transfer the knowledge acquired in the field of agribusiness to other countries or regions. The final objective is to promote sustainable food security and to insert those countries or regions into global trade networks as producers of food and other agro-industrial commodities.

3. Output

34. UNIDO will establish a portfolio of projects and programmes in selected countries to promote the production of food and value added food products.

4. Activities

35. UNIDO will use the resources available in the proposed Trust Fund to carry out assessments that would lead to operations on two fronts:

(a) The establishment of an enabling environment conducive for agribusiness development; and

(b) The creation of competitive local enterprises, with a special focus on the establishment of measures to eliminate production constraints; the organization of producers (smallholders) and transfer of the required knowledge (including technologies) to upgrade them; and the insertion of producers and local institutions into the international value chains.

36. These assessments will be used to formulate projects both for implementation by UNIDO itself and to establish linkages with national and international financial institutions for the purpose of implementing large-scale investments in the structural measures required to strengthen food security.

37. The Trust Fund will be focused on three specific categories of activities:

(a) Technical and economic analysis and advice focused on the potential for expansion of food value chains;

(b) Preparatory and programme development activities;

(c) Joint activities with financial institutions to identify the technical requirements for investments in measures for creating an enabling environment conducive to agribusiness development and the creation of competitive local enterprises.

5. Anticipated outcome

38. These activities are expected to lead to an increase in the level of food security in developing countries; an increase in the capacity of these countries to withstand food market instability and high prices; and an increased integration of these countries into the global trading system for agro-industrial products.

B. Trust Fund Two: Renewable energy for productive activities

39. As agreed at the World Summit on Sustainable Development⁴ (WSSD) 2002, sustainable energy services are essential for both social and economic development, and a much wider and greater access to energy is critical for the achievement of the sustainable development targets set in the United Nations Millennium Declaration.

40. About 2.5 billion people in the world still rely on traditional biomass fuels and about 1.6 billion do not have access to modern energy services. The real issue is to provide alternative energy solutions and options that would address issues of accessibility and affordability, and at the same time promote energy security by using local resources in a sustainable manner.

41. Within the three thematic priorities of UNIDO, the promotion of renewable energy for productive uses is particularly relevant in that it makes a direct contribution to the challenges of the energy access and climate change agendas, and at the same time facilitates income generation opportunities for communities and industry at the local level.

42. While previous efforts to increase access to modern energy services through the use of renewable energy have tended to focus on energy for basic needs, strong empirical evidence now shows that there has been more success in initiatives that were targeted at the use of renewable energy resources for promoting productive capacities, especially those focused on income generation opportunities and employment creation at the local level. Given that agriculture is the economic mainstay of most developing countries, the enhanced provision of renewable energy to agricultural and food processing industries will not only increase their productivity but also help to meet the twin objectives of energy security and economic development at the local level. Furthermore, the enhanced use of renewable sources of energy under such circumstances can provide a variety of other benefits, inter alia in the fields of energy and climate security.

1. The problem

43. Although the use of renewable energy for productive uses has the potential to deliver multiple benefits for communities and industries in developing countries, it is constrained by a number of barriers. These include inadequate levels of information, technology, capacity and financing. In particular, the use of renewable

⁴ The World Summit on Sustainable Development (WSSD) 2002 agreed on a comprehensive agenda on energy for sustainable development. Guided by the overarching objectives of sustainable development and poverty reduction, governments agreed to improve access to “reliable, affordable, economically viable, socially acceptable and environmentally sound energy services and resources”, to increase the use of renewable energies, to enhance energy efficiency, and to provide cleaner liquid and gaseous fuels.

energy technologies for productive uses has been undermined by supply-driven and technology-push approaches taken in the past with low or no ownership at the community level. At the systemic level, there is a lack of policy incentives geared towards scaling up the use of renewable energy systems. Contrary to general belief, fossil fuels energy systems still enjoy direct or indirect subsidies in a majority of developing countries, which make renewable energy systems uncompetitive for power generation or industrial applications.

44. While early renewable energy systems faced considerable challenges related to the performance of these technologies, there have been remarkable technological advances over the last two decades that have rendered some of the renewable technologies highly reliable and efficient. Furthermore, volatile oil prices have also made most renewable energy systems commercially viable, especially in remote locations. However, to make these technologies readily available and accessible at the local level and at affordable costs, most developing countries need assistance in developing local capacities in terms of human resources, manufacturing, maintenance and operations. Deficiencies of ancillary technical institutions for testing, operation and maintenance of these technologies also inhibit the large-scale deployment of renewable energy systems. Linking these renewable energy systems with productive uses would not only promote more employment opportunities for local people, but also ensure their commercial viability and sustainability on a long-term basis.

45. Inadequate technical skills at the local level account for poor maintenance of imported systems while a lack of adequate after-sales service facilities for renewable energy technologies further hinders their deployment. Hence, there is need for high and middle-level technical and entrepreneurship expertise to stimulate renewable energy markets. Ensuring a secure and sustainable commercial success of renewable energy depends on enhanced institutional and human capacities as well as business and market capabilities with targeted financing.

46. Although markets of renewable energy are growing worldwide,⁵ the private sector remains a small player in many developing countries (especially LDCs). The bulk of private sector financing is non-local and mostly led by international financial organizations and guaranteed by beneficiary governments. It is therefore critical that global best practices on mobilizing private sector investments in renewable energy systems be used to catalyse local private sector participation for increased investments in renewable energy systems for productive uses.

2. The UNIDO initiative

47. UNIDO will work to increase access to modern energy supplies where this energy can be used to support the development of productive activities in rural areas of developing countries. In doing so, UNIDO will build on its experience in

⁵ According to the latest Renewable Energy Policy Network Report, annual renewable energy investments reached \$120 billion in 2008, and the installed capacity of renewable energy grew to 280 gigawatts (GW). This excludes more than 600 GW large hydro capacity. However, these investments and capacity addition are mostly located in developed and in some of the larger few developing countries, such as India, China and Brazil. On the other hand, sub-Saharan Africa, with a very low access index in rural areas, receives less than \$1 billion in investment annually in renewable energy sector.

promoting mini-grids based on renewable energy systems for income generation activities in such areas.

48. One of the core targets will be to promote renewable energy technologies for industrial applications in manufacturing SMEs, which often rely on petroleum fuel or coal and fuel wood. The rising cost of fossil fuels has made it an imperative for these enterprises to look at alternative energy sources that can meet their needs in a cost-effective and efficient manner. UNIDO will help them to do so for improved competitiveness and productivity.

49. UNIDO has acquired a significant expertise in small hydro, biomass, wind and solar technologies, inter alia through dedicated technology centres established for some of these technologies and through its implementation of programmes based on such technologies in Africa with GEF and other partners. The Organization is thus well-placed to implement similar projects in remote rural locations in developing countries using these technologies to provide sustainable and commercially viable solutions for power generation and industrial applications on a decentralized basis.

3. Output

50. UNIDO will formulate a portfolio of projects and programmes in selected countries to promote renewable energy for productive uses and industrial applications, and at the same time meet the twin objectives of energy and climate security.

4. Activities

51. UNIDO's activities can be summarized as follows:

(a) Mapping of resource potential, assessment of needs through diagnostic studies and formulation of programmes and projects for promoting the application of proven and cost-effective renewable energy technologies with a view to enhancing access to energy in rural areas, and linking them with concrete productive opportunities;

(b) Designing and implementing comprehensive human and institutional capacity-building measures in Member States for increased adoption of renewable energy for rural electrification;

(c) Implementing programmes assisting SMEs in general, and agro-industries in particular, to meet their energy needs from renewable energy resources, especially energy derived from waste generated in these industries, and to help in reducing their dependency on fossil fuels;

(d) Rendering assistance in scaling up renewable energy use by promoting local manufacturing of renewable energy equipment; and

(e) Providing policy advice and technical assistance to countries in accessing international environmental funds such as GEF and the Clean Development Mechanism (CDM).

52. The Trust Fund resources will be used for three specific categories of activities:

(a) Preparatory and programme development activities;

(b) Technical and economic analysis and advice related to renewable energy issues;

(c) Joint activities with the representatives of partner institutions and agencies to identify the technical requirements for taking a programmatic approach in order to create an enabling environment conducive to scaling up renewable energy development; demonstrate the techno-economic feasibility of renewable energy based on mini-grids and stand-alone systems for productive uses by linking up with agro and food industries; and document and disseminate best practices.

5. Anticipated outcome

53. These activities are expected to result in the adoption of renewable energy applications in developing countries and regions, and the utilization of this energy for productive activities to promote the rapid achievement of socio-economic development targets as well as environmental sustainability and climate change objectives.

C. Management and financial aspects of the two Trust Funds

54. UNIDO will establish the trust funds under its financial regulations and rules for the receipt and administration of the aforesaid funds, including the interest accruing. The trust funds and the activities financed therefrom will be administered by UNIDO in accordance with its applicable regulations, rules and administrative instructions and directives.

55. All financial accounts and statements will be expressed in United States dollars or euros and there will be no accounting or reporting in other currencies. For the purpose of recording receipts and/or payments, all transactions will be converted into United States dollars or euros at the official United Nations accounting rate of exchange applicable on the date of receipt and/or payment.

56. The trust funds will be utilized by UNIDO for the purpose of meeting the actual costs of the activities described above, and to finance the programme support services provided by UNIDO in the implementation of the projects developed through these activities.

57. The trust funds will be subject exclusively to the internal and external auditing procedures laid down in the financial regulations, rules and administrative instruction and directives of UNIDO.

58. Following the model of the TCB Trust Fund, the trust funds will be managed by the Programme and Project Approval Committee (PAC) within the specific terms of reference (TOR) and criteria for each of the Trust Funds. Regular progress reports will be prepared showing the use of the Funds as well as the results in terms of projects and programmes developed and funded. Further voluntary contributions to the trust funds will be used within the same criteria as co-funding or full funding for the programmes developed by the initial allocation.

IV. Action required of the Board

59. The Board may wish to recommend to the General Conference the suspension of Financial Regulations 4.2 (b) and (c) to allow UNIDO to retain the remaining unutilized balances of appropriations referred to in paragraph (d) of Conclusion 2009/3 of the twenty-fifth session of the Programme and Budget Committee, as well as any additional amounts collected during 2009, for the purposes described in the present document.

Annex I

Current IT platforms/systems, gap analysis and desired state

1. UNIDO's current IT systems and platforms are predominately based on Agresso, the mainframe and InfoBase. The Agresso financial system (the financial performance control system, FPCS) is used to support the financial cycle dealing with budget, receipt, disbursement, accounting and reporting. The mainframe mainly supports the human resource management (HRM) and payroll processes and systems. InfoBase is a platform for customized applications such as data warehouse reporting, basic project management, travel, time and leave reporting and recruitment systems.
2. The impact of these fragmented systems is that users are faced with several conceptually different interfaces and operations to complete simple tasks such as raising travel authorizations or processing recruitment requests for consultants.
3. The desired state is to migrate the majority of these systems to a fully integrated commercial enterprise resource planning (ERP) system ensuring that all information is captured at source and monitored and reported consistently. The ERP would include electronic approvals and web-based access for both Headquarters and field operations ensuring up-to-date real time access and information.
4. The table below lists all applications operating on the three main systems and platforms and shows the current state, a gap analysis and the desired state with a fully integrated ERP. This is shown by each of the functional areas identified for improvement.
5. The solution will address the external drivers documented in the current change initiatives such as the International Public Sector Accounting Standards (IPSAS), the Global Environment Facility (GEF) fiduciary standards, decentralization and the Internal Control Framework (including External Auditors and internal oversight services).

	Current platforms and systems	Gap analysis	Desired state with ERP
Agresso (financial performance control system)			
1	<i>Project management:</i> <ul style="list-style-type: none"> • Captures basic project financial information. 	<ul style="list-style-type: none"> • Provides basic project reporting; • Does not support RBM principles; • Does not meet complex requirements of GEF, EU and other donor reporting. 	<ul style="list-style-type: none"> • Based on RBM principles; • Full donor reporting and monitoring; • Support of technical cooperation programme and project cycle.

	Current platforms and systems	Gap analysis	Desired state with ERP
2	<p>Finance: Supports:</p> <ul style="list-style-type: none"> • General ledger and accounting, • Budgeting, • Payments, • Receivables, • Fixed Assets. 	<ul style="list-style-type: none"> • Does not fully support the far-reaching changes required by the adoption of IPSAS; • No fixed asset integration with procurement and finance; • Minimal field office access; • No web portal; • No electronic approvals or workflow. 	<ul style="list-style-type: none"> • IPSAS and GEF compliant system that includes all required complexities; • IPSAS compliant financial reporting and statements; • Integration between asset management, procurement and financial records; • Consistency with other United Nations organizations leading towards harmonization of business practices.
3	<p>Procurement: Supports:</p> <ul style="list-style-type: none"> • Purchasing and obligations. 	<ul style="list-style-type: none"> • Captures only basic obligation information for procurement, experts, travel and miscellaneous items; • No procurement and contract management system; • Limited procurement planning system; • Does not support decentralized procurement; • No integration with other United Nations systems. 	<ul style="list-style-type: none"> • Full support and integration of the entire supply chain from planning to payments; • Support of the decentralized procurement via e-procurement; • Electronic workflow and approvals with controls.
	Mainframe		
4	<p>Human resource management: Supports:</p> <ul style="list-style-type: none"> • Personnel actions; • Consultants and experts reporting; • Pension administration; • Payroll operations for staff members and experts. 	<ul style="list-style-type: none"> • No integration into Agresso system; • Duplication of data entry for consultants; • Outdated business processes; • Not available to end-users at Headquarters and field offices; • Administration of entitlements not IPSAS compliant. 	<ul style="list-style-type: none"> • Full integration of HRM system within one ERP; • One database for all staff and consultants; • Implementation of best practice; • IPSAS compliance for HRM processes.

	Current platforms and systems	Gap analysis	Desired state with ERP
5	<p>Procurement: Supports:</p> <ul style="list-style-type: none"> • Buildings Management Services stock system. 	<ul style="list-style-type: none"> • No integration into Agresso system; • Not IPSAS compliant. 	<ul style="list-style-type: none"> • Integration with procurement and asset management; • IPSAS compliant inventory system.
	InfoBase		
6	<p>Project management: Supports:</p> <ul style="list-style-type: none"> • Data warehouse reporting; • Basic technical cooperation (TC) project reporting; • TC procurement planning; • Document management; • Pipeline project management. 	<ul style="list-style-type: none"> • No real-time integration with Agresso; • Provides basic project management system; • Does not fully support the TC programme/project cycle. 	<ul style="list-style-type: none"> • Replacement with online and same source ERP reporting tool; • Incorporation of RBM principles and balance scorecard methodologies; • Integration with finance, procurement and HRM; • Support of knowledge management principles.
7	<p>Human resource management: Supports:</p> <ul style="list-style-type: none"> • Online recruitment, vacancy and applicants system; • Consultants and experts roster and cost estimation; • Time and leave recording; • Learning system; • Staffing table; • Personnel reporting. 	<ul style="list-style-type: none"> • No real-time integration with mainframe and Agresso; • Duplication of data entry. 	<ul style="list-style-type: none"> • Full integration of HRM processes within the ERP; • Implementation of best practices as standard, e.g. learning, performance appraisal, and recruitment; • Reporting from one data-source.
8	<p>Travel system: Supports:</p> <ul style="list-style-type: none"> • Travel initiation and authorization. 	<ul style="list-style-type: none"> • In-house developed system; • No real-time integration with Agresso; • Leads to duplication of inputs. 	<ul style="list-style-type: none"> • Full integration with logistics and finance.

	Current platforms and systems	Gap analysis	Desired state with ERP
9	<i>Finance:</i> Supports: <ul style="list-style-type: none"> Assessed contributions; Donor management. 	<ul style="list-style-type: none"> Not fully integrated with Agresso. 	<ul style="list-style-type: none"> Includes a customer relation management (CRM) module; Includes IPSAS revenue recognition process for contributions.
Other stand-alone systems			
10	<i>Project management:</i> <ul style="list-style-type: none"> Donor reporting systems such as for Montreal Protocol, GEF, UNDP and EU. 	<ul style="list-style-type: none"> Stand-alone and outdated reporting system. 	<ul style="list-style-type: none"> Integration within ERP reporting system.
11	<i>Human resource management:</i> <ul style="list-style-type: none"> Paradox database reporting on personnel statistics. 	<ul style="list-style-type: none"> Stand-alone and outdated reporting system 	<ul style="list-style-type: none"> Full integration of HRM processes and system within the ERP.
12	<i>Field project offices:</i> <ul style="list-style-type: none"> Stand-alone purchasing, accounting and project management systems for various offices. 	<ul style="list-style-type: none"> No integration with Headquarters systems 	<ul style="list-style-type: none"> Full online integration with Headquarters ERP for all functional areas.

Annex II

Information technology infrastructure

UNIDO IT systems are run on a heterogeneous and complex infrastructure. The following table highlights the current infrastructure, its limitations and risks, as well as the desired state.

Current infrastructure	Limitations and risks	Desired state
<p>Mainframe operations: Major parts of HRM, the payroll system and some other applications are running on the mainframe server operated by the International Atomic Energy Agency (IAEA).</p>	<ul style="list-style-type: none"> • IAEA guarantees services until end of 2011; • The developers of the mainframe database system have retired and there is a shortage of expertise; • The mainframe applications were not designed to be operated at field offices; • There is very limited integration into other platforms. 	<ul style="list-style-type: none"> • By the end of 2011 all mainframe applications have to be replaced by a different platform; • This platform will be an integral part of UNIDO's client/server environment using the latest database and analytical management tools.
<p>Field connectivity: Most field offices have dedicated equipment linking their local area network (LAN) to UNIDO Headquarters.</p>	<ul style="list-style-type: none"> • The connectivity is slow and unreliable; • In some locations the options are limited by the hosting organization that has control over the Internet connectivity. 	<ul style="list-style-type: none"> • Satellite connections are an option in areas where connectivity remains poor; • The ERP will provide web-based accessibility.
<p>Client/server environment Agresso is the major system running on a client/server environment.</p>	<ul style="list-style-type: none"> • After five years operating on the same release it was necessary to upgrade to the new version of Agresso for normal continued operations and ensure vendor support; • It was also necessary to upgrade the database management software to ensure vendor support; • Need to replace the hardware for database, application and web servers to ensure proper operations. 	<ul style="list-style-type: none"> • The ERP will ensure that all applications are on a fully integrated client/server platform having greater processing and storage capacity; • Real time availability of systems and platforms to Headquarters and field operations.

Current infrastructure	Limitations and risks	Desired state
<p><i>Web applications (Infobase)</i> UNIDO operates most of its in-house developed applications with a web interface.</p>	<ul style="list-style-type: none">• The critical Infobase data warehouse and application servers are more than five years old, which have reached the end of their life and are no longer supported by the software vendors.	<ul style="list-style-type: none">• Harmonization and integration of all web applications and database platforms into the ERP;• Single data entry and source for all information.