



United Nations Industrial Development Organization

**Statement of Mr. LI Yong
Director General**

**at the Opening of the
31st Session of the
Programme and Budget Committee**

**27 May 2015
Vienna, Austria**

Madam Chair,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen,
Friends and Colleagues,

I would like to extend a very warm welcome to all of you to the thirty-first session of the Programme and Budget Committee. To begin with, I wish to express my most sincere thanks to the Acting Chairman, H.E. Ambassador Ayoko of Nigeria, and to the outgoing Bureau for its support throughout the year. At the same time, I would also like to congratulate H.E. Ambassador Pilar Saborio de Rocafort of Costa Rica, who has been elected our new chair.

Excellency, I am confident that, under your able leadership and together with your Bureau, this session will be conducted in an efficient and productive manner.

It is also my great pleasure to welcome Mr. Michael Schrenk, Audit Director at the Supreme Audit Institution of Germany, who will present, on behalf of the External Auditor of UNIDO, the report of the External Auditor for 2014 to the Committee under agenda item 4.

Before proceeding, I would also like to take this opportunity to introduce Mr. Celestin Monga, whom I appointed as Managing Director of the Programme Support and Management Division at the beginning of this year. Hailing from Cameroon, Mr. Monga has extensive experience as an economist, author, academic and scholar. Before joining UNIDO, Mr. Monga was the Senior Advisor for Structural Economic Transformation at the World Bank. We are very pleased that he has joined UNIDO and strengthened the executive management of our Organization.

Excellencies,
Distinguished Delegates,

INTRODUCTION

This session of the Programme and Budget Committee is taking place at a crucial moment in the history of the global development discourse, as we are about to make the transition from the Millennium Development Goals to a comprehensive and universal new post-2015 development agenda built around 17 Sustainable

Development Goals, or SDGs. This new development agenda has been the subject of intense discussion and debate among all relevant stakeholders for the past several years, and is still being fine-tuned in a number of intergovernmental processes, which will culminate in September this year when the world's leaders will gather in New York to adopt the agenda.

Of course, inclusive and sustainable industrial development – or ISID in short – is one of the central elements of this new global development policy. This brings a special responsibility to UNIDO, to become even more effective in supporting you, our Member States, in achieving the SDGs. Many consultations with your capitals over the past two years have given me a clear indication of the high demand from all of your countries for UNIDO's analytical inputs, policy advice, normative support, and technical cooperation services. In the SDG era, I expect this demand to grow even further as UNIDO is called upon to support the achievement of inclusive and sustainable industrialization as one of the seventeen agreed Sustainable Development Goals.

The future ability of this Organization to meet those expectations and responsibilities depends on the decisions you will be taking over the next few days, here at this session of the PBC. As I already said during the last session of this Committee, we need a stronger UNIDO, a more efficient UNIDO. We need to make sure that the Organization has the capacities to fulfil its mandate in accordance with your guidance, given first in the Lima Declaration, and now in the post-2015 development agenda.

Distinguished Delegates,
Ladies and Gentlemen,

You have a complex agenda ahead of you. As the Secretariat has provided you with background documentation on all items of this agenda, I will only refer to those where I would like to provide additional information.

ANNUAL REPORT FOR 2014

The year 2014 represented my first full year as Director General of UNIDO. As I had mentioned in my statement to the thirtieth session of the PBC last year, I had identified three goals for the Organization in 2014, linked to policy, operations, and management:

- The **policy goal** was to firmly position inclusive and sustainable industrial development in the post-2015 development agenda.

- The **operational goal** was to operationalize the Lima Declaration and ISID.
- And the **management goal** was to further improve the efficiency and effectiveness of UNIDO's systems and processes.

I am delighted to inform you that we have made significant progress on all three objectives, as illustrated in the Annual Report for 2014 that has been submitted to you.

At the policy level, we have made considerable headway, most notably through the inclusion of inclusive and sustainable industrialization into the proposed SDG structure, as Goal 9. As I mentioned at the outset, these goals are expected to be adopted at a special summit of the United Nations in September as part of the larger post-2015 development agenda. The importance of industrial development as a means of addressing poverty and inequality has also been endorsed by the UN General Assembly in a strong resolution on this item, and in many statements issued by regional and other groups of countries at a number of important international conferences held last year. In this connection, I am particularly pleased at the strong endorsement given to ISID in the SAMOA Pathway outcome document of the UN Conference on Small Island Developing States last year, and by the recent decision by the Marshall Islands to join UNIDO.

At the operational level, UNIDO formally launched the Programme for Country Partnerships (PCP) in 2014, as the principal modality for the operationalization of ISID. This programme seeks to mobilize multi-stakeholder partnerships, including national governments, development finance institutions and the private sector, and to leverage their joint resources and expertise to provide a holistic and comprehensive response to the challenge of inclusive and sustainable industrial development. This approach builds on collective action and catalyzes local and international development partners with a view to creating synergies between their various developmental interventions and maximizing the development impact of these interventions. Many of you have participated in the two ISID Forums in June and November last year, and witnessed the inaugural dialogue with the two initial pilot countries, Ethiopia and Senegal, at the November event. A third ISID Forum will be held in July 2015 in Addis Ababa, as a special event in connection with the Third International Conference on Financing for Development.

At the management level, UNIDO has taken effective steps to optimize the organizational structure and efficiency of its operations, based on the recommendations of a Task Force on Operational Fine-Tuning and Alignment that I had established in the first half of last year. These included streamlining the Organization's programme and project formulation and approval processes, as well as enhancing its donor partnerships and external relations, policy advisory services, and field representation functions. This task force also laid the foundations for the establishment of Programme for Country Partnerships.

Of course, you can see that the Annual Report is much shorter this year than in the past, due to decisions taken earlier in response to the budgetary stringencies we face. Notwithstanding its reduced volume, the Report provides a comprehensive overview of our activities during the past year, covering all programmatic focus areas of UNIDO, and highlighting the developmental outcomes and impacts of the services we have provided. Additional information is available on our website, and I look forward to you, the delegates at this session of the PBC, also sharing your specific experiences of cooperation with UNIDO in your statements.

Distinguished Delegates,
Ladies and Gentlemen,

REPORT OF THE EXTERNAL AUDITOR FOR 2014

UNIDO has received the first report from the newly appointed External Auditor of the Organization, the Supreme Audit Institution of Germany. These reports are always an important feedback source for all of us, and I read them with great interest.

I was pleased to note the very positive and encouraging outcome of the audit. Please permit me to quote a passage from the report, summarizing its findings:

“The audit revealed no shortcomings or errors that I considered material with regard to accuracy, completeness and validity of the financial statements as a whole; therefore I expressed an unqualified audit opinion on UNIDO’s financial statements for 2014.”

The report does contain recommendations on how to improve the presentation and preparation of the financial statements. These recommendations will be implemented once the means to further develop the ERP system become available.

The management audit focused on the Buildings Management Services and the security of UNIDO’s IT infrastructure; UNIDO will follow up on the observations and recommendations arising from this audit.

I would like to take this opportunity to express our gratitude for the important contribution of the External Auditor to our efforts to improve the effectiveness and efficiency of our organization. We are naturally very pleased by such a strong commendation by an impartial financial expert; it demonstrates the commitment to excellence and financial probity that UNIDO has pursued over the past several years.

Excellencies,
Ladies and Gentlemen,

MEDIUM-TERM PROGRAMME FRAMEWORK, 2016-2019

The proposed Medium-Term Programme Framework for 2016-19 (MTPF) reflects the broad programmatic objectives and priorities of both the Lima Declaration and the proposed SDGs of the post-2015 development agenda around the mandate of inclusive and sustainable industrial development. It also reflects the recommendations contained in the outcome document of the informal working group on the future, including programmes and resources, of UNIDO entitled “Strategic Guidance Document” (IDB.41/24). Moreover, guidance given by United Nations system-wide coherence mechanisms, including the quadrennial comprehensive policy review of operational activities for development of the United Nations (QCPR), and relevant inter-agency coordination frameworks at country level, has also been incorporated into the MTPF. Special attention was also given to the outcome document of the third International Conference on Small Island Developing States, and the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024.

The MTPF 2016-19 incorporates a number of innovative features, including:

- The introduction of a new partnership approach for promoting ISID, based on the Programme for Country Partnerships (PCP) approach. As I mentioned a few moments ago, this new strategy seeks to enhance synergies among relevant development partners, while maximizing the impact of UNIDO’s interventions;
- Inclusion of a budgetary framework indicating the expected budgetary requirements for the implementation of the MTPF, as recommended in the evaluation of the preceding MTPF for 2010-2013 conducted by the UNIDO Office for Independent Evaluation last year;
- Enhancement of the results-based management approach, as requested by Member States in the Strategic Guidance Document, including the establishment of an *Integrated Results and Performance Framework*. This framework contains a number of corporate indicators, which will be underpinned by improved monitoring and reporting systems and tools.

The Integrated Results and Performance Framework is based upon an integrated two-tiered results structure, that considers global, regional and country-based ISID achievements on the one hand; and UNIDO’s organizational and management performance on the other. Reporting on these corporate results will be done on a regular basis through the Enterprise Resource Planning (ERP) system. The new results matrix will not only allow us to provide better and more timely reporting to Member States, but will also allow for more holistic

and regular reporting on the global progress of ISID. Overall, the new results framework is designed to make UNIDO an even more results-oriented, transparent, efficient and trusted partner in the Post-2015 era.

Excellencies,

Ladies and Gentlemen,

PROGRAMME AND BUDGETS, 2016-2017 AND THE FINANCIAL SITUATION OF UNIDO

The programmatic structure provided in the MTPF 2016-2019 is fully reflected in the proposed Programme and Budgets 2016-17, which also incorporates the integrated results and performance framework contained in the MTPF. Great care has also been taken to ensure that both documents are fully aligned with the Lima Declaration and the post-2015 development agenda.

The budgetary proposals contained in the Programme and Budgets document take full account of the impact of the reduction in assessed contributions in the biennium 2016-2017 resulting from the withdrawal of three Member States from UNIDO, in compliance with decision IDB.39/Dec.7 of the IDB, which states that “upon the announced departure of any Member State, the Organization’s regular budget shall be readjusted so as not to increase the assessed contributions of remaining Member States”. The Programme and Budgets document therefore contains two specific proposals to address the reduction of €10.4 million arising from the withdrawal of the Member States, as well as a projected reduction of €1.0 million in investment income.

Excellencies,

Ladies and Gentlemen,

Let me stress that the budgetary constraints for the biennium 2016-2017 have posed an acute challenge to the capacity of UNIDO to deliver its core services. Indeed, the shortfall of €10.4 million is extremely difficult to cover without hurting our operations. Yet, we have risen to the challenge.

I have therefore proposed two measures: to rationalize the UNIDO field network and enhance the coherence of UNIDO’s field representation on the one hand, and to shift the funding base for activities previously financed under Special Resources for Africa to voluntary contributions on the other. Making the required reductions has been extremely difficult for me, but I sincerely believe that the two proposals I have submitted provide the best options available to UNIDO at the present time to respond to the challenges we face.

In this connection, I would like to thank the Member States for the keen response they have shown to these proposals in the large number of briefings and consultations that I and my staff have engaged in on a bilateral basis and with all of the Regional Groups since the Programme and Budgets document was submitted to you on 22 March. More recently, we have issued a conference room paper, PBC.31/CRP.6, providing additional information and clarifications on these and other proposals contained in the Programme and Budgets document.

Against this background, I would like to only briefly summarize the proposed measures.

The proposed restructuring of UNIDO's field operations addresses the recommendations of the Strategic Guidance Document and aims to rationalize the field network and enhance the coherence of UNIDO's field representation by simplifying the current structure into two types of offices: regional offices and country offices. This proposed restructuring will not reduce UNIDO's field presence, but foresees the maintenance of five regional offices, complemented by 41 country offices. The reform also foresees the upgrading of the current UNIDO Desks to the status of full country offices. While the international professional staff at some existing country offices may be substituted by national officers, the functions of the country offices will remain unchanged. This measure will yield significant budgetary savings while also enhancing the Organization's programmatic effectiveness by allowing a large number of technical staff currently operating from the field to be more effectively deployed at headquarters, from where they can implement technical cooperation activities in a wider range of countries than is possible from the field offices.

Excellencies,

Ladies and Gentlemen,

Let me turn now to the proposal to shift the funding base for the Special Resources for Africa from the Regular Budget to voluntary contributions. In this connection, I want to emphasize my firm determination to ensure that the separate appropriation line for SRA, which was set at the level of €5.5 million in the previous biennium, will be replaced by earmarking a similar or larger amount from voluntary funding sources, including thematic trust funds and contributions to the Industrial Development Fund (IDF). I have also committed the Organization to continue to ensure the funding of such important conferences as the Conference of African Ministers of Industry and the biennial LDC Industry Ministerial Conference.

Indeed, I want to stress that UNIDO will continue to give high priority to Africa and the LDCs, in full compliance with the Lima Declaration and the post-2015 development agenda. Indeed, I foresee a continued expansion of

our services to these countries, reflecting the continued priority given to Africa and the LDCs by the international donor community. Moreover, the anticipated expansion of our newly developed PCP modality, which we are currently piloting in two African countries, will also contribute to the increased development impact of our services in Africa. The innovative partnership approach on which this programme is based is already showing its potential to mobilize investments from external sources far in excess of the resources hitherto available under SRA.

Excellencies,

Ladies and Gentlemen,

Given the critical need for UNIDO to maintain its capacities to make an effective contribution to the Post-2015 development agenda, the budget proposal contains a request for fresh resources for three important new elements to the programme and budgets, namely:

- The full contributions of UNIDO to the United Nations Resident Coordinator (UNRC) system, as calculated by the United Nations Development Group;
- The establishment of the required substantive capacities to develop and expand the newly introduced Programme for Country Partnerships (PCP);
- The additional essential upgrades to the Enterprise Resource Planning (ERP) system.

These proposals have also been discussed with you in a number of consultations and briefings over the past two months, and are also covered in detail in the conference room paper PBC.31/CRP.6. I will therefore address them only briefly in my statement to you this morning.

Let me begin by referring to the subject of the United Nations Resident Coordinator, or UNRC, system. This mechanism is seen by Member States as a critical mechanism for ensuring the coordination and coherence of the United Nations development operations in the field, and has been the subject of resolutions both by the General Assembly and ECOSOC. It will remain the primary system for country-level coordination, particularly in view of the provisions in the most recent QCPR in General Assembly resolution 67/226.

Unfortunately, the cost to UNIDO of participation in the UNRC system will increase significantly in 2016-2017 relative to current biennium, when we only paid the annual base fee of \$175,000. In 2016-2017 we will be required to pay the full contribution, which has been set at approximately €2.0 million for the biennium, implying an increase of about €1.7 million. The absorption of this additional cost in the regular budget would have a significant negative impact on UNIDO's technical programming capabilities.

On the other hand, however, a failure by UNIDO to pay its full contribution would have a negative impact on UNIDO's participation in joint programmes at the country level, as well as its ability to benefit from various fundraising mechanisms. While we are working with other UNDG agencies to achieve a reduction in costs for the biennium 2017-18, it is imperative for UNIDO to meet its obligations for the UNRC system in the next two years. Otherwise, we will be frozen out of the system-wide UN policy coherence and coordination initiatives, which will severely impact on our ability to implement projects in the field, and to access the shared resources and economies that the Resident Coordinator system offers. It would also mean that UNIDO would be less able to respond effectively to the concerns of Member State Governments in the field, as our participation in UNDAFs would be reduced.

The second item for which additional resources are requested in our budgetary proposal is the further development and expansion of the UNIDO Programme for Country Partnerships.

During the biennium 2014-2015, resources have been diverted from supporting UNIDO's traditional technical cooperation activities to invest in the development of this new country partnership programme. However, maintaining the partnership model on this transformative scale places a considerable demand on UNIDO's resources, especially since the Organization must sustain its traditional modalities of service delivery while it is developing and implementing the PCP approach in a growing number of countries.

To enable UNIDO to meet this challenge, the Programme and Budgets document includes a request for additional resources of €2.1 million to meet the core budgetary requirements of developing and expanding this programme. These funds will be used primarily to recruit the additional staff required to support this programme. The implementation costs of specific projects under this programme are expected to be met, like traditional technical cooperation projects, from voluntary contributions. The operations, effectiveness and impact of the PCP approach in the various pilot countries will be continuously monitored and assessed, with a view to deciding whether this modality should be standardized as the principal mechanism for UNIDO's operations in the future. In the meantime, it will be implemented in parallel with UNIDO's classical technical cooperation programmes and projects.

Finally, let me draw your attention to the third element requiring fresh resources as included in our budgetary proposal: the upgrading of the UNIDO ERP system.

UNIDO must continue to enhance its transparency and accountability to all of its stakeholders, and particularly to you, our Member States. The ERP system has been invaluable in this regard, particularly in terms of the Member State dashboard, which allows for easy access to project documents, procurement information, etc. It

has also greatly enhanced the organizational efficiency and effectiveness of UNIDO by streamlining the Organization's administrative procedures and processes.

To ensure that the ERP system continues to achieve these objectives while adapting to the improvements in UNIDO's programmatic and reporting framework, a number of required enhancements to the ERP system have been identified, which demand additional budgetary allocations.

In this context it is important to note that the Report of the External Auditor specifically includes among its recommendations further investments in the ERP system to improve the presentation and preparation of financial statements.

The additional contribution of €1.5 million included in our proposal is to be utilized for a number of purposes, including upgrading strategic, reporting and monitoring tools; the preparation of future Programme and Budgets; annual reporting; the standardization of financial statements and reporting according to International Public Sector Accounting Standards (IPSAS); and contract and invoice management. All of these will build upon the existing measures taken by UNIDO to render our activities even more transparent to our stakeholders.

To further enhance the ERP system, moreover, and to stay abreast of the rapid technological developments in this field, UNIDO has also proposed introducing a number of improved functionalities for the system, including cloud solutions, mobile accessibility and improved usability, integration of social media and intranet, and reporting on "big data". These improvements will contribute to reducing the ERP system's operating cost in the medium term, as well as facilitating a faster deployment of relevant IT solutions and training, streamlining upgrades and enhancements, improving the system's performance, and increasing its availability and accessibility.

Excellencies,

Ladies and Gentlemen,

We do not make this request for additional resources lightly. All of the three new elements proposed in the Programme and Budgets are critically important for our Organization to be able to maintain its effectiveness and meet the growing demand of Member States for its services in the new post-2015 era.

Excellencies,
Ladies and Gentlemen,

Let me turn now to another document that you have before you, which proposes some enhancements to the financial management framework (document IDB.43/5-PBC.31/5).

With a view to mitigating the impact of the reductions in UNIDO's budgets, and inspired by the "Strategic Guidance Document" and the recommendations relating to the management criteria contained in it, I have submitted for your consideration a package of three proposals to enhance UNIDO's financial management framework.

In accordance with financial regulations 6.3 and 6.4, I intend to establish two special accounts. One of these is the Special Account of Voluntary Contributions for Core Activities, or SAVCCA, to facilitate the receipt, management and usage of voluntary contributions for core activities. The other is the Major Capital Investment Fund, or MCIF, as a funding mechanism to secure funding for major capital investments or replacements. The recommended purposes and limits of the special accounts are spelt out in the relevant pre-session document. This document also contains a proposal on a standardized approach to the treatment of unutilized balances of appropriations on the basis of the current Financial Regulations of UNIDO, for consideration by the PBC.

The establishment of a special account of voluntary contributions for core activities would be instrumental to facilitate the receipt, management and use of voluntary contributions for core activities that cannot be fully funded from the regular budget due to funding constraints. Like many other UN organizations, UNIDO must also open up all possible venues for capturing contributions for its activities outside of the framework offered by assessed contributions. While precedents already exist at UNIDO when such a funding mechanism brought about tangible results – for example, a great portion of the initial ERP investment – time will tell if the proposed special account will attract significant contributions and hence offer some relief in the current tight budgetary situation.

In addition, the major capital investment fund (MCIF) was constructed by following the IAEA model, where it is in operation with the approval of Member States since many years. Its sole purpose will be to secure funding for major one-off or infrequent capital investments or replacements without distorting the regular budget.

The third essential building block is the proposed standardized approach to the treatment of unutilized balances of appropriations and cash surpluses on the basis of the current Financial Regulations to finance

the SAVCCA and MCIF. In making this proposal, I would like to emphasize that leaving unutilized balances of appropriations from collections of prior biennium arrears will remain the sovereign decision of each Member State.

I hope you will give favourable consideration to these proposals and permit UNIDO to follow the best practices already in use at other UN entities.

Excellencies,

Ladies and Gentlemen,

UNIDO strives to deliver efficient, cost-effective and transformative services for the betterment of our stakeholders. We have also responded to calls from you, our Member States, to increase the clarity, transparency and effectiveness of our operations.

We are grateful for your continued support and guidance and I am confident that many millions of people will feel the benefit of an ISID-focused policy approach in the decades to come, given the transformative power of industrial development in its new context of inclusiveness and sustainability. For this to become reality, I appeal to you, the Member States of UNIDO, to show unity and support in providing UNIDO with the capacities needed to fulfil the mandate that you have given to your Organization.

Let us work together to ensure that the financial foundation of your Organization remains firm and solid in the long run. I count on your continued trust and partnership.

Thank you for your attention.
