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REVIEW OF MANAGEMENT AND ADMINISTRATION IN THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)

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CONTENTS

ACRONYMS

ALD	Appointment of limited duration
CCA	Common Country Assessment
CEB	United Nations System Chief Executives Board for Coordination
CSN	Country Strategy Note
ERP	Enterprise resource planning
ESB	Evaluation Services Branch
FAO	Food and Agriculture Organization of the United Nations
FPCS	Financial performance control system
GEF	Global Environment Facility
HRM	Human resources management
IAEA	International Atomic Energy Agency
ICSC	International Civil Service Commission
ICT	Information and communication technology
IDB	Industrial Development Board
IDF	Industrial Development Fund
ILO	International Labour Organization
IMIS	Integrated Management Information System
IOG	Internal Oversight Group
IPU	Investment Promotion Unit
ITPO	Investment and Technology Promotion Office
ITU	International Telecommunication Union
JAC	Joint Advisory Committee
JIU	Joint Inspection Unit
MTPF	Medium-term Programme Framework
NIS	Newly Independent State
ODCCP	Office for Drug Control and Crime Prevention (now UNODC)
ODG	Office of the Director-General
OECD	Organisation for Economic Co-operation and Development
PBC	Programme and Budget Committee
PBs	Programme and Budgets
PCF	Programme Coordination and Field Operations Division
PTC	Programme Development and Technical Cooperation Division
RIDC	Regional Industrial Development Centre
SME	Small and medium-sized enterprises
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNJSPF	United Nations Joint Staff Pension Fund
UNODC	United Nations Office on Drugs and Crime (formerly ODCCP)
UR	UNIDO Representative
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization

EXECUTIVE SUMMARY: OBJECTIVE, CONCLUSIONS AND RECOMMENDATIONS

Objective
To take stock of reform measures undertaken in recent years in the Secretariat of UNIDO and, in view of an assessment of those measures, to identify further improvements in administration and management aimed at optimizing the use of UNIDO funds in the most efficient manner and strengthening the role of UNIDO in the United Nations system.

INTRODUCTION (Chapter I)

A. In common with other organizations of the United Nations system, UNIDO has been undergoing a process of reform since the early 1990s in response to the demands of its Member States for greater efficiency in the use of scarce resources. Faced with a severe financial crisis, UNIDO's reforms have been particularly far-reaching, and the Inspectors acknowledge the considerable achievements of the current Director-General in driving through a major organizational and programmatic transformation. The foundation for this transformation has been the 1997 Business Plan. Change is a continuing process in UNIDO, however, as the Director-General further seeks to enhance organizational capacity, and it is against this background of on-going reform that the present review has been undertaken (paras. 3-5).

MANAGEMENT STRUCTURE AND SYSTEMS (Chapter II)

B. This review of the management and administration of UNIDO has to be set in the context of the deep budget cuts which the Organization had to implement after 1995, which resulted in retrenchment in all programmes, but particularly those providing administrative services. Streamlining has been accompanied by major restructuring, both in the context of the 1997 Business Plan and more recently in 2002. This has been a difficult period for all the stakeholders, but especially for the staff faced with constant uncertainty. While the current Director-General must be given credit for having restored UNIDO to financial stability, it appears that the management methods used have raised questions and concerns among the staff at large (paras. 9-14).

C. The Executive Board of the Secretariat and the Board of Directors, both currently chaired by the Director-General, are the formal institutions of executive management in UNIDO. In the forum of the Executive Board, programming and funding decisions are currently being made at the highest levels of management. By its terms of reference, the Board of Directors is a forum for the discussion of management issues related to the substantive programmes, as well as organizational and staff issues, but its influence has waned, and decision-making has become increasingly centralized in the Executive Board (paras. 15-17).

Recommendation 1

With the objective of re-establishing an institutional framework for policy setting and decision-making, the Director-General should take steps to revitalize the Board of Directors. The Inspectors would suggest that:

(a) It should meet on a regular – preferably monthly – basis to discuss an agenda that has been circulated in advance, and minutes of the meetings should be available on the Intranet;

(b) It should be chaired by each of the three Managing Directors in rotation, for a fixed period;

(c) There should be clear delegation of decision-making authority from the Executive Board to the Board of Directors;

(d) Alternate meetings might be designated for the discussion of field matters, and UNIDO Regional Directors and Representatives should participate, either in person or by video link where feasible.

D. Several management functions report directly to the Office of the Director-General, including strategic direction, management and coordination, communication and public information, and internal oversight. Given the responsibilities of the legal function to provide legal advice to the Secretariat and the governing bodies, and to represent the legal position of UNIDO to outside institutions, it too should be positioned in the Office of the Director-General, or, at any rate, report to the Director-General directly (para. 18).

Recommendation 2

The Director-General should position the legal function in the Office of the Director-General.

E. Under the Business Plan, authority was to be delegated to the maximum possible extent to the middle-management levels of the Organization, and, accordingly, a new financial authorization system was introduced in 1998 that included delegation of authority both at Headquarters and in the field. However, while this may have speeded up processes, it would appear that for the most part financial control is still centralized, as is also the case for human resources management (paras. 20-24).

Recommendation 3

In respect of delegation of authority, the Director-General should:

(a) Ensure that instruments promulgated to delegate authority are strictly observed, and that accountability mechanisms are fully utilized;

(b) Promulgate instruments to delegate authority in human resources management, as appropriate.

F. UNIDO is in the process of upgrading the management information systems that support its business processes and goals. Logistical and financial constraints, however, have prevented the Organization from implementing a complete enterprise resource planning (ERP) solution, and systems are being replaced in a phased approach, starting with the financial and accounting systems. A new financial performance control system (FPCS) has been developed, within budget, using Agresso, a commercial software package, and the total implementation costs of FPCS appear to compare very favourably with similar projects in other international organizations. In the next phase, the existing personnel systems will be replaced. Overall systems integration and the associated costs should be a major consideration for the Organization as it assesses competing bids to provide the human resources management software (paras. 25-31).

Recommendation 4

The Director-General should give careful consideration to the requirement of overall systems integration, and the estimated costs of that integration, in choosing between different software packages for the implementation of human resources management applications.

G. An Intranet-based executive management system – the Infobase – has been developed that pulls information from a variety of systems and integrates it into a reporting system with drill-down capabilities and cross linking. Infobase has considerably reduced paper reporting, with consequent cost savings. While progress has been made in linking the field offices to the Intranet, network connectivity is being financed from the field offices budget, which has proved to be a constraint. In the context of Recommendation 20 below to further strengthen the field presence, the information and communication technology needs of the field offices will have to be addressed (paras. 32-33).

Recommendation 5

The Director-General should review the information and communication technology needs of the field offices in the context of plans to strengthen the field presence and ensure that the budgetary requirements are adequately funded.

PLANNING, PROGRAMMING, BUDGETING, MONITORING AND EVALUATION
(Chapter III)

H. UNIDO has normally used a medium-term plan – known as the Medium-term Programme Framework (MTPF) – and the biennial programme and budgets as its main planning instruments. The Business Plan adopted in 1997 was essentially an emergency restructuring plan in response to the severe financial crisis facing the Organization; though not time bound, it is the closest there is to a long-term strategic plan. The MTPF has been retained alongside the Business Plan, although it has not had a major role in the planning processes during the transformation of UNIDO, the programme and budgets document remaining the main planning tool. Indeed, the MTPF is currently used more for reporting on progress than as a programme planning instrument for the medium term. It is evident that the Business Plan has fulfilled its primary function of refocusing the Organization in response to the financial crisis, and it should now be reconsidered in the context of the move to a comprehensive results-based management system as called for by the Member States (paras. 34-46).

I. The main thrust of the changes in the presentation of the programme and budgets over the last three bienniums has been towards a progressive refinement of the programmatic framework in the context of the Business Plan. Important elements have been missing, however, for the programme and budgets to be considered "results-based". In this regard, further progress has been made in the proposals for the programme and budgets for 2004-2005: each programme is presented in terms of "need and objective" and "activities and outputs", and a list of performance indicators for each programme under each of the major programmes has been included as an annex to the main budget presentation. This represents a further step by the Secretariat in its ongoing efforts to develop meaningful measures of performance (paras. 52-55).

Recommendation 6

In the context of the move to a comprehensive results-based management system, the Director-General should review the planning processes of the Organization and draw up proposals for the consideration of the Member States. The proposals should include the following components:

(a) A long-term, time-bound, Strategic Plan that sets out the corporate strategy of the organization and the related strategic objectives, replacing the Business Plan.

(b) A Medium-term Plan that would be the primary programme planning instrument, providing clear linkages between the long-term strategic objectives of UNIDO and each of the programmes in the biennial programme and budgets; it would be presented in a results-based format.

(c) A results-based biennial programme and budgets presented at the sub-programme level.

J. In the context of the Business Plan, the Organization has moved to replace traditional stand-alone projects of technical assistance with integrated programmes offering multi-disciplinary approaches to problems of industrial development at the country level. Integrated programming required the development of a new management framework in which the so-called "matrix organization" would operate, and the framework was set out in administrative instruments issued in 1998. Although the elements of the new management framework were clearly documented, it appears that some components are not yet in place (paras. 47-50).

Recommendation 7

The Director-General should review the progress made in developing and implementing the components of the new management service framework and service management cycle, including the envisaged comprehensive cost accounting system, and report on these matters to the Industrial Development Board at its twenty-ninth session.

K. A new programming modality, in the form of thematic initiatives, has recently been introduced with the intention of focusing on a limited number of high-priority and high-visibility fields of activity. The new initiatives, which will draw on the existing service modules, will supplement the integrated programmes and stand-alone projects, and it is hoped that they will give an impetus to funds mobilization. There is concern, however, that the Organization risks spreading itself too thinly as it tries to develop a range of thematic initiatives with regional application (para. 51).

Recommendation 8

The Industrial Development Board should request the Director-General to limit the number of new initiatives to be taken forward in a pilot phase, and to report on the experience with this programming modality at its twenty-ninth session.

L. The strategic guidelines of the MTPF call for a comprehensive results-based management system incorporating effective methods of performance measurement, monitoring and evaluation. The Secretariat of UNIDO has been working for several years in developing performance indicators at three levels: Organization-wide; the Programme and Budgets; and the integrated programmes. The Inspectors note that this issue is under continuous review and that further improvements and refinements could be expected. However, it would be timely if the Director-General were to report on progress, and hence follow-up the report on performance indicators that was presented to the twenty-first session of the Board in 1999 (paras. 56-60).

Recommendation 9

The Director-General should report to the twenty-ninth session of the Board on progress in developing performance indicators at (a) the Organization-wide level; (b) the level of the Programme and Budgets; and (c) the level of the integrated programmes, stand-alone projects and new initiatives. In the context of the Organization's move to results-based management, he should report on how these performance indicators will relate to the planning framework (the MTPF and the biennial Programme and Budgets), and how they will be used to report on performance to the Member States.

M. While the Inspectors agree with the External Auditor that key results are very important, particularly in the context of reporting to Member States, they recognize that the Secretariat has made solid progress in incorporating success indicators into programme planning and reporting. However, team leaders and project managers are individually responsible for devising success indicators, and inconsistencies may therefore arise, making consolidated reporting more difficult. The generic results indicators developed in the context of the evaluation guidelines should enhance consistency, but this should be supported by training for programme and project managers, preferably in the context of overall training in programme formulation (paras. 61-65).

Recommendation 10

To enhance consistency in the use of results indicators at the programme/project level, the Director-General should ensure that programme managers are supported by training, preferably in the context of overall training in programme formulation.

N. The Director-General reports on performance to the Members States in a number of ways, including the annual report, regular reports on the MTPF and the Programme and Budgets, and specific reports in response to decisions and resolutions of the governing bodies. However, in the context of the Organization's move to a system of results-based management, it will be necessary to develop a comprehensive programme performance report, and the Inspectors would draw attention to the equivalent report of the World Intellectual Property Organization (WIPO) which may be considered a model in this regard (paras. 66-67).

Recommendation 11

In the context of the Organization's move to results-based management, the Director-General should develop a comprehensive programme performance report; it should summarize at the sub-programme level the main results achieved and corresponding selected performance indicators.

FINANCIAL SITUATION OF UNIDO (Chapter IV)

O. In common with other organizations of the United Nations system, UNIDO experiences problems in the collection of assessed contributions to its regular budget and hence the accumulation of arrears. Although the Director-General has made considerable efforts to stabilize the financial situation of the Organization, the specific measures taken have not fully met expectations. The slow uptake of the payment plan option introduced for Member States in arrears has been disappointing, while the incentive mechanism to encourage timely payments has proved to be cumbersome to service and alternative schemes may need to be examined (paras. 68-76).

Recommendation 12

(a) The Industrial Development Board should urge Member States in arrears to pursue the option of a payment plan.

(b) The Director-General should continue to report to the Industrial Development Board through the Programme and Budget Committee on the Organization's experience with incentive measures. He should also continue to examine other options to encourage timely payment, including the imposition of restrictions on the sharing of budgetary surpluses.

P. The delivery of UNIDO technical cooperation assistance is for the most part funded from voluntary contributions. The integrated programmes have different funding requirements compared with traditional stand-alone projects; to launch these programmes and keep them integrated, UNIDO needs programmable funds that it can allocate flexibly, in addition to special purpose funds. However, voluntary contributions have not been adequate to achieve desired objectives. In endorsing the Business Plan, Member States approved the concept of integrated programming; the Inspectors believe that their endorsement should be supported with the requisite voluntary contributions (paras. 77-81).

Recommendation 13

(a) In line with their endorsement of the Business Plan, and hence of integrated programming, Member States should make sufficient programmable funds available in their voluntary contributions to ensure the viability of this programming modality.

(b) To avoid the risk that under-funded integrated programmes turn into fragmented stand-alone projects, and that technical cooperation delivery falls short of expectations, Member States should ensure that voluntary contributions are both adequate and timely.

Q. The mobilization of voluntary funds is the responsibility of a variety of actors in UNIDO, although it is proposed to establish a new programme for financial resource mobilization in the regional programme in the 2004-2005 biennium, which may improve coordination and stimulate greater activity. However, to raise the profile of the Organization with the major donor community it is essential that a substantial presence be established in Brussels (paras. 82-84).

Recommendation 14

In view of the pressing need of UNIDO for voluntary funds, the Director-General should seek the approval of the legislative bodies to open a liaison office in Brussels with a strong fund-raising mandate and staffed at the same level as the liaison office in New York.

HUMAN RESOURCES MANAGEMENT (Chapter V)

R. The inevitable outcome of the financial crisis of the mid-1990s was a major downsizing of the Organization. In a first retrenchment, 22 per cent of established posts were abolished in the 1996-1997 biennium, followed by a staff separation programme in early 1998 under which a further 99 staff left the Organization. Lack of funds to complete the separation programme meant that a staff redeployment programme had also to be implemented, which was less than optimal from the point of view of both programming requirements and the staff concerned. Staff members remaining with the Organization have faced greater workloads, reduced promotion opportunities, continuing uncertainty and lack of security, all serving to lower morale. The Director-General has continued to restructure the Secretariat, engaging most recently in a systematic shake-out of the senior levels of management. While these changes may be justified by the search for managerial and technical excellence, as well as the need to rebalance the structure of the Secretariat, the impact on staff morale will remain negative, particularly in the absence of adequate prior consultations (paras. 86-89).

Recommendation 15

In respect of plans for restructuring the Secretariat and the redeployment of staff, the Director-General should intensify prior consultations with the staff representative and fully inform the staff in advance of his intentions, thus permitting an exchange of views and ensuring transparency of the process.

S. It is of some concern that in spite of the sharp fall in established posts in the context of the recent downsizing, vacancy rates in the Secretariat remain persistently high, excessively so in some cases. While the situation is less serious for posts established under the regular budget at Headquarters, rates in excess of 20 per cent for regular budget posts in the field are clearly detrimental to the delivery of the Organization's regional programmes. More worrying still are the very high vacancy rates for posts established under the operational budget, both at Headquarters and in the field (paras. 90-91).

Recommendation 16

To improve programme delivery and enhance transparency, the Director-General should:

(a) Take immediate steps to fill vacant posts established under the regular and operational budgets, both at Headquarters and in the field, to the extent that this is possible under current financial constraints;

(b) Maintain the lowest possible vacancy rates on a continuing basis;

(c) Include in his annual personnel report to the Board a detailed analysis of post vacancies in the Organization.

T. Starting in mid-2001, a new human resources management framework was being introduced in three phases covering recruitment and contractual status, career growth, and staff development. Some aspects of the framework remain to be elaborated, however, including procedures for the rotation of core Professional staff between Headquarters and field offices. The Inspectors also have some reservations about certain innovative approaches in the new framework, including the introduction of non-career appointments of limited duration for specific functions that are limited in time and scope, and the new system of performance awards (paras. 92-97).

Recommendation 17

In the context of the introduction of the new human resources management framework, the Director-General should undertake to:

(a) Formalize and implement a system of rotation of core Professional staff between Headquarters and the field;

(b) Monitor the granting of appointments of limited duration to ensure that they are not being used at the expense of the core staff of the organization, and include information on this type of appointment in his annual personnel report to the Board;

(c) Monitor the new systems of performance appraisal and performance recognition and merit and report thereon to the Board in his annual personnel report, both in the implementation phase and on a regular basis thereafter.

U. For service in technical cooperation activities at field duty stations, as well as for special technical assignments at UNIDO Headquarters, appointments are being made under the 200 series of the staff rules (L posts). The Inspectors have some concerns about the use of L posts at Headquarters, particularly for appointments in the Office of the Director-General. Appointments to L posts are not in general subject to a competitive recruitment process. Hence, in cases where posts have been created under the 100 series of the staff rules to replace existing L posts, the incumbents of these posts are perceived to have an advantage in the competition that follows. Such practices have raised concerns among the staff as promotion opportunities are already scarce as a result of the downsizing. It is imperative that strict criteria be applied to the creation of L posts at Headquarters, and that L posts currently existing be critically reviewed and discontinued in cases of non-conformity with the criteria (paras. 19 and 98).

Recommendation 18

The Director-General should apply strict criteria to the creation of posts under the 200 series of the staff rules for special technical assignments at Headquarters; L posts currently existing at Headquarters should be critically reviewed and discontinued in cases of non-conformity with the said criteria.

V. At its twenty-first session, the Board requested the Director-General to take fully into consideration in the recruitment of staff the constitutional stipulations regarding wide and equitable geographical distribution, particularly for Professional posts. The Director-General has pointed to recent improvements in the geographical distribution of appointments, but in the absence of comparable statistics it is difficult to review progress towards equitable geographical distribution of the staff. As regards gender balance, the Director-General has taken affirmative action to improve the representation of women in the Secretariat, and, in the period 1999-2002, the Organization has come close to its targets of 15 per cent for P-5 and above, and 30 per cent for overall female representation in Professional posts subject to geographical distribution. Gender parity should now be the goal, as called for by United Nations General Assembly resolution 52/96 of December 1997 (paras. 99-102).

Recommendation 19

The Director-General should:

(a) Continue his efforts to recruit staff at the Professional level on a wide and equitable geographical basis;

(b) Set new targets of 50/50 gender distribution by 2005 in all categories of posts, and continue his efforts to recruit more women at the senior decision-making levels;

(c) Ensure that comparable statistics on the geographical distribution of the Professional staff, as well as gender balance, are included in the Director-General's annual personnel report to the Board, as well as in the UNIDO annual report.

FIELD REPRESENTATION (Chapter VI)

W. A central tenet of the 1997 Business Plan was to secure an effective decentralization of activities and strengthened field representation through the redeployment of resources from Headquarters to the field and appropriate delegation of authority. Detailed terms of reference, as well as instruments for delegation, were drawn up for country offices and regional offices, and locations identified. Considerable efforts were expended by the Secretariat in 1999/2000 to implement decentralization, including redeployment of Professional staff and other resources. In the absence of additional funds, however, substantive responsibility for programme formulation, development and implementation has largely remained with the technical branches at Headquarters. In 2002, most of the country offices continued to be staffed by only a UNIDO Representative and two General Service staff, and, with the exception of the Regional Industrial Development Centre (RIDC) in Nigeria, the situation in most of the regional offices was little better (paras. 107-119).

X. The Inspectors do not share the view that there is a need to retain a critical mass of technical expertise at Headquarters, believing that there is a greater need for a core of technical expertise in each of the field offices and that a reversal of the current imbalance between Headquarters and the field is probably the only way to effect decentralization of operative functions, given current resource constraints (paras. 120-124).

Recommendation 20

To facilitate effective decentralization as called for in the Business Plan, the Director-General should put forward the following proposals for the consideration of the legislative organs:

(a) The nine regional offices should be progressively strengthened by the transfer of technical posts from Headquarters. While each regional office would ideally be allocated the technical expertise to cover each of the eight UNIDO service modules, the exact profile would take account of specific regional needs. The technical posts transferred to the field should include a sufficient number at the P-4/P-5 levels to attract and retain qualified and experienced personnel.

(b) The Headquarters regional bureaux should be scaled back and the posts thus released reallocated to the field to support field-based programme formulation and monitoring, as well as funds mobilization.

(c) Administrative and support functions in the field should be strengthened concomitantly, including the creation of posts and the upgrading of field systems and infrastructure.

(d) Existing delegations of authority to the field should be reviewed, and expanded as appropriate, particularly in respect of recruitment of staff.

(e) Country offices which do not meet agreed performance criteria should be closed in consultation with the Member States concerned.

(f) Small technical units should be retained at Headquarters focusing on normative, global forum functions, while the Headquarters regional bureaux should be replaced with smaller units with an internal liaison function.

INTERNAL AND EXTERNAL OVERSIGHT (Chapter VII)

Y. In response to concerns expressed by Member States, as well as the External Auditor, about the internal oversight and control functions of UNIDO, the Director-General has announced the establishment of an Office of Comptroller General, with responsibility for the full range of internal oversight functions, in order to improve the performance and assure the accountability of the Organization. The Inspectors fully support the consolidation and strengthening of these functions and believe that the establishment of the Office provides an opportunity to improve certain internal oversight practices, as well as introduce others which have hitherto been lacking. A formal instrument, similar to the Charter of the Office of Inspector-General in the Food and Agriculture Organization of the United Nations (FAO), should set out the terms of reference of the Office, as well as modalities to ensure operational independence and effective reporting mechanisms (paras. 125-130).

Recommendation 21

The Industrial Development Board should request the Director-General to ensure that proposals being drawn up for a formal instrument to govern the Office of Comptroller General should include, but not be limited to, the following:

(a) The Comptroller General should be appointed by the Director-General after appropriate consultations with the Industrial Development Board; the incumbent may be subject to dismissal by the Director-General only for cause, following similar consultations with the Board.

(b) Reports of the Comptroller General should be sent to the Director-General with a copy to the External Auditor. At the request of the Comptroller General, any such report shall be submitted to the Industrial Development Board, together with the Director-General's comments thereon.

(c) The Comptroller General should submit an annual summary report on the Office's activities, including the status of the implementation of recommendations, to

the Director-General, with a copy to the External Auditor. The Director-General should in turn submit the annual summary report to the Industrial Development Board, together with his comments thereon.

Z. While the financial regulations of most organizations in the United Nations system do not specify limits on the tenure of appointment of the External Auditor, the General Assembly of the United Nations and the World Food Programme have recently introduced certain term limits. The Inspectors are in agreement with the view that term limits offer a balance between the need for continuity and the need for rotation as a prerequisite to safeguard independence (paras. 131-132).

Recommendation 22

The Industrial Development Board may wish to consider limiting the term of office of the External Auditor to a non-consecutive term covering two or three financial periods in order to balance reasonable rotation with the need for continuity.

Aa. At its twenty-fourth session, the Industrial Development Board endorsed the establishment of a pilot scheme of follow-up to the approved recommendations of the Joint Inspection Unit through the policy-making organs. Decision-making in these organs would be facilitated if the Director-General were to submit specific action-oriented proposals on recommendations made by JIU and how to implement them (paras. 133-134).

Recommendation 23

The Director-General should submit concrete proposals to the legislative organs on specific action to be taken on JIU recommendations and their implementation.

I. INTRODUCTION

1. The present report is the sixth in a series of comprehensive reviews of administration and management in United Nations specialized agencies. The first, on the International Labour Organization (ILO), was issued in 1999; the second, on the United Nations Educational, Scientific and Cultural Organization (UNESCO), in 2000; two more followed in 2001 – the International Telecommunication Union (ITU) and the World Health Organization (WHO); and the fifth in 2002 on the Food and Agriculture Organization of the United Nations (FAO). The reports on UNESCO and ITU were included in the work programme of the JIU at the request of their respective executive heads, while those on ILO, WHO and FAO were initiated by the JIU itself.

2. UNIDO was established in 1966 as an organ of the General Assembly functioning as an autonomous organization within the United Nations. Its purpose was to promote industrial development, and "by encouraging the mobilization of national and international resources to assist in, promote and accelerate the industrialization of the developing countries, with particular emphasis on the manufacturing sector".[1] On 1 January 1986, UNIDO achieved independent status as a specialized agency of the United Nations system. The Organization currently states its mission in terms of helping developing countries and countries with economies in transition "in their fight against marginalization in today's globalized world" by mobilizing "knowledge, skills, information and technology to promote productive employment, a competitive economy and a sound environment".[2]

3. In common with other organizations in the United Nations system, UNIDO has been undergoing a process of reform since the early 1990s in response to the demands of its Member States for greater efficiency in the use of scarce resources. What sets UNIDO apart, however, is the withdrawal of certain key contributors during that decade, which constituted a severe financial shock to the Organization.[3] In order to survive, UNIDO had to undertake rapidly a major organizational and programmatic transformation. A detailed account of the Organization's considerable achievements in this regard can be found in "Reforming the UN – UNIDO's Need-Driven Model".[4] The foundation for UNIDO's transformation, the "Business Plan on the Future Role and Functions of UNIDO", was approved by the Industrial Development Board (the Board) at its seventeenth session in June 1997 and endorsed by the seventh General Conference (the Conference) in December 1997.[5] The Business Plan was "the product of an intensive process of consultations, compromise and consensus-building and was meant to provide an agreed framework and general guidance for re-launching the Organization".[6] At the same Conference, a new Director-General was elected with the mandate of implementing the Business Plan; he was re-elected for a second term in December 2001.

4. Change is a continuing process in UNIDO; a review of the programme and budgets from the mid-1990s shows that the Organization has been undergoing restructuring for at least five bienniums. The Business Plan contained a new organizational structure for the Secretariat and, following the major transformation necessary for its implementation, a period of consolidation and stability might have been expected. However, the change process has been relaunched. Since his re-election, the Director-General has restructured the Secretariat and embarked on the systematic re-appointment, through competitive recruitment, of senior-level management. The Director-General continues to seek ways of "enhancing organizational capacity",[7] and it is against this background of ongoing reform that the present review has been undertaken at this point in time.

5. In their preparations for the report, the Inspectors carried out missions to UNIDO Headquarters in Vienna and to UNIDO offices in the field. Their choice of the Regional Industrial Development Centre in Lagos (now located at Abuja) and the Regional Office in Cairo for the main field missions reflected the strong commitment of UNIDO in Africa. In addition, informal meetings were held with the staffs of the Regional Offices in New Delhi and Beirut, and a visit was made to the UNIDO Investment and Technology Promotion Office (ITPO) in Bologna. Other than through initial and supplementary interviews, information was collected from documentary sources and a

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[1] General Assembly resolution 2152 (XXI), 17 November 1966, para. 1.
[2] UNIDO web site.
[3] Canada (3 per cent of assessed contributions to the regular budget) withdrew at the end of 1993; the United States, the major contributor (25 per cent) withdrew at the end of 1996; Australia (2 per cent) at the end of 1997.
[4] C. A. Magariños et al. (Kluwer Law International, The Hague, 2001); see, in particular, chap. 6 and annex II.
[5] Board decision IDB.17/Dec.2, 27 June 1997; Conference resolution GC.7/Res.1, 4 December 1997.
[6] GC.9/11, 12 November 2001, para. 3.
[7] UNIDO/DGB(M).91, 14 November 2002.

questionnaire. The Inspectors also had informal contacts with a number of delegates, as well as with representatives of the European Union and the G-77. And there was close cooperation with the External Auditor of the Organization.

6. Based on their review of all the information available to them from different sources, the Inspectors decided that the report should focus on the following areas:

– management structure and systems;
– planning, programming, budgeting, monitoring and evaluation;
– the financial situation of the Organization;
– human resources management;
– field representation;
– internal and external oversight.

7. This report does not review the common administrative services – buildings management and catering services – which are managed by UNIDO on behalf of the international organizations located at the Vienna International Centre, or consider the wider implications for the Organization of its participation in the system of common and joint services currently operated by those international organizations. This is to avoid duplication with a recent report of the JIU that reviewed in detail the common and joint services of the Vienna-based organizations, and proposed a series of recommendations which included a reconsideration of the current administrative arrangements for these services.[8]

8. The Inspectors wish to extend their appreciation to all those who assisted them, and in particular to the UNIDO officials who were interviewed and who made substantive contributions to the preparation of the report, as well as those who helped with the logistics of the missions to Headquarters and the field.

[8]"Common and joint services of United Nations system organizations at Vienna", JIU/REP/2002/12.

II. MANAGEMENT STRUCTURE AND SYSTEMS

9. This review of the management and administration of UNIDO has to be set in the context of the deep budget cuts which the Organization had to implement after 1995. With the impending withdrawal of the major contributor, the proposed programme and budgets (PBs) 1996-1997 was rewritten to effect a real reduction of 14.6 per cent in the total budget (regular and operational) over the previous biennium. The cuts were concentrated on administrative services, which suffered a real reduction of almost 25 per cent.[9] This was followed by a real reduction of some 28 per cent in the total PBs 1998-1999 compared with the approved budget for the previous biennium, and zero real growth in the regular budget in both 2000-2001 and 2002-2003.[10]

A. Restructuring and streamlining

10. Under the Business Plan, the Secretariat was restructured at the end of 1997, reducing the number of divisions to three: two substantive divisions based on clusters of activities (investment promotion and industrial capacity-building; and sectoral support and environmental sustainability), and a third dealing with administration, operational support and coordination of field representation, while policy coordination, external relations, legal advice and internal audit functions were located in the Office of the Director-General. The programmatic and administrative reforms introduced during the first term of the current Director-General were implemented under this structure.

11. Inherent in the new structure was a streamlining of the Organization. In staff terms this meant a continuation of the retrenchment that had begun in 1996 and a voluntary separation programme was instituted in January 1998, the total number of established posts (regular and operational budgets) falling by some 12 per cent between 1997 and 1998.[11] Administrative procedures were also rationalized through the conversion, phasing out or abolition of most committees and Director-General's bulletins, the aim being to reduce the level of bureaucracy and regulation in the Organization.[12]

12. While retaining three major divisions, the Director-General embarked on another round of restructuring of the Secretariat, effective 1 March 2002.[13] One major change was the concentration of all the technical branches in one division – the Programme Development and Technical Cooperation Division (PTC) – to strengthen the delivery and technical capacity of the Organization. In addition, field representation was moved from the administrative division to a new programmatic division – the Programme Coordination and Field Operations Division (PCF) – which also encompassed a new programme coordination function. The creation of PCF was based on the "need for increased coordination, monitoring and unity of approach, both at headquarters and in the field" following the development and implementation of integrated programming.[14]

13. The new structure was generally supported by the senior managers interviewed for this report. The view was expressed that the previous administrative division was too unwieldy for effective management, and that the decision to reposition field representation in a programmatic division was sound. The restructuring has been followed by a shake-out of senior management, initially through a competitive recruitment exercise to fill the D-2 Managing Director posts of each of the three divisions, which resulted in three appointments from outside the Organization. The next stage of the streamlining, announced in November 2002, included the decision to reduce the number of D-2/L-7 posts since the existing number was considered "financially not sustainable".[15]

14. In five years as executive head of UNIDO, the current Director-General has taken – and continues to take – bold measures to restructure, rationalize and downsize the Organization. This has been a difficult period for all the stakeholders, but especially the staff faced with constant uncertainty. The prevailing view during the interviews for this report was that the Director-General could be credited for having saved the Organization from probable demise and restored it to financial stability. However, the management methods used have raised questions and concerns among the staff at large. Lack of consultation was a major area of concern; in the recent restructuring, for example, many staff – even at senior levels – had no information about their reassignments until an internal circular was issued. Other problems have arisen with the frequent reorganization of certain functional areas which may have impeded their efficient operation.

9 IDB/S.6/2-PBC/AS.2/2, 4 December 1995, para. 11 table.

10 GC.7/21, 21 November 1997, table 2(a); IDB.21/7-PBC.15/7, 2 March 1999, para. 54; IDB.24/3-PBC.17/3, 16 March 2001, para. 55.

11 GC.7/21, 21 November 1997, table 5; IDB.21/7-PBC.15/7, 2 March 1999, table 5.

12 DG/AI/No.5, 12 March 1998.

13 UNIDO/DGB/(O).86/Add.9, 15 February 2002.

14 Ibid., para. 6.

15 UNIDO/DGB(M).91, 14 November 2002, para. 5.

B. Executive management

15. The Executive Board of the Secretariat and the Board of Directors, both established by the current Director-General and chaired by him, are the formal institutions of executive management. The Executive Board, comprising the Director-General and the three Managing Directors, meets regularly, but not on a fixed basis. Under its terms of reference, it is "a forum for discussion on overall management issues and consideration of technical cooperation activities".[16] In practice, it does much more than discuss and consider since it decides how UNIDO funds will be spent: it reviews for approval all integrated programmes to be financed from extrabudgetary resources, as well as all requests for UNIDO financing from the regular programme of technical cooperation and other programmable resources; it also "endorses" requests for programming missions for the formulation of integrated programmes.

16. In the forum of the Executive Board, programming and funding decisions are being made at the highest levels of management of the Organization. To enhance transparency, summaries of the discussions of the Executive Board and follow-up actions required are posted on the UNIDO Intranet and are hence available to Member States as well as UNIDO staff. In 1999, these summaries were not much more than lists of funding approved for the integrated programmes and projects, but from 2000 the information is more comprehensive and the format more user-friendly. Following the appointment of the three new Managing Directors, the Executive Board held a special session of review meetings with the branch Directors of PTC and PCF in October 2002, and summaries of these meetings are also available.

17. Under its terms of reference, the Board of Directors "is composed of Managing Directors, Directors and Senior staff to discuss management issues related to technical cooperation and global forum activities as well as organizational and staff issues".[17] As of January 2003, there were 33 members, and although this number included the Directors of the regional bureaux, there was no direct participation by UNIDO Representatives or Regional Directors in the field. The Board of Directors does not meet on a fixed basis, or, in the last two years, as frequently as the Executive Board – it held only three meetings in 2002.[18] Retreats of the Board of Directors to focus on policy and strategy were held each year in 1999-2001 and in early 2003. The summaries of the various meetings, which are posted on the Intranet, suggest that though the Board of Directors has been an active forum for shaping the new integrated programming methodology, its influence has waned and decision-making has become increasingly centralized in the Executive Board. The Inspectors believe that, given its terms of reference, the Board of Directors should constitute the institutional framework for policy setting and decision-making.

18. In addition to his chairmanship of the Executive Board and the Board of Directors, the Director-General exercises control through the functions that report directly to his Office (ODG), including strategic direction, management and coordination, and communication and public information. An internal oversight group also reports to the Director-General, as do the New York and Geneva liaison offices.[19] As with the wider Secretariat, the structure of ODG has been subject to change. In the reorganization of March 2002, the legal function was moved from ODG to the Division of Administration and its designation changed from "Office" to "Unit". The legal function is mandated to provide legal advice to the Secretariat and the governing bodies, and to represent the legal position of UNIDO to outside institutions as required.[20] Given these responsibilities, the Inspectors consider that the legal function should report to the Director-General, as is the case in other organizations of the United Nations system, and that it should be located in ODG as before.

19. The Director-General has also on occasion reassigned displaced staff to his Office as "advisers" – most latterly the previous incumbents of the Managing Director posts. While some of these assignments have been short-term, longer-term appointments of advisers may be harder to justify, especially when the appointments are on project posts (L posts) under the 200 series of the staff rules, and the individuals appointed are beyond retirement age. The use of project posts for external recruitment to ODG and other Headquarters entities is also open to question, and has been a contentious issue for the staff at large. While posts under the 200 series are for "service in technical cooperation activities … at field duty stations as well as for special technical assignments at UNIDO Headquarters",[21] many of the L post appointments in ODG are hard to justify under the latter heading. This issue will be considered further in chapter V below.

[16] UNIDO Intranet.
[17] Ibid.
[18] In 1999 and 2000, the Board of Directors was convened almost as frequently as the Executive Board, but in 2001 only 5 meetings were held compared with 17 for the latter, while in 2002 the equivalent figures were 3 and 14.
[19] UNIDO/DGB/(O).86/Add.9, 15 February 2002, para. 3.
[20] IDB.24/3-PBC.17/3, 16 March 2001, para. F.14.
[21] DG/AI/No. 14, 5 June 2001, para. 24.

C. Delegation of authority and accountability

20. The Business Plan stated that "authority [would] be delegated to the maximum possible extent to the middle-management levels of the Organization, whose role would be accordingly strengthened".[22] A new financial authorization system was introduced in May 1998, "based on the management principle of decentralized financial control", and designed to increase the authority and flexibility of managers in their management of financial resources for operational activities, as well as rationalize, simplify and speed up the financial authorization process to reduce administrative costs.[23] The pertinent administrative instruction states that managers are "personally and publicly accountable … for the resources under their responsibility", and underlines this by reference to staff rule 101.06, which stipulates that staff members may be required to reimburse the Organization for financial loss suffered by their negligence. Accountability would also be ensured through documentation and disclosure, reconciliation of financial obligations and disbursement reports, quarterly reporting on achievements, and immediate reporting of exceptional situations.[24]

21. An internal administrative instruction further elaborated the delegation of financial authority in respect of field office budgets, designating UNIDO Representatives (UR) as allotment holders with authority to certify expenditures against programme allotment documents.[25] The UR prepares the annual budget estimates for the field office for submission to Headquarters, and is responsible for authorizing expenditures within the approved allotments and for ensuring that expenditures remain within allotments. With certain exceptions, the UR has limited flexibility to redeploy resources between approved budget lines. Instruments were also put in place in May 1998 to delegate authority to the field in respect of procurement of goods and services up to US$ 20,000, the recruitment of short-term local consultants, and administration of fellowship and study tour programmes; delegation in respect of recruitment of national experts and local General Service project personnel was added in 1999.[26]

22. The instruments of delegation outlined above date largely from 1998 – the first full year in office of the current Director-General. In respect of recruitment to established posts at Headquarters and in the field, however, the administrative instructions issued in 1998 and subsequent annexes, setting out the framework of the staff career development system, have been superseded by that of June 2001, which introduced the human resource management framework and, in some respects, curtailed delegation of authority. For example, Managing Directors or designated officers in consultation with the Staff Development and Management Branch were formerly able to initiate the issuance of vacancy announcements; currently, however, the process can only begin for all categories of posts after obtaining the approval of the Director-General.[27] The only exception is for internal General Service vacancies, but even so the Managing Director of the Division of Administration must approve the issuance of these vacancy announcements. The centralized recruitment procedures for posts at all levels was an issue that was raised frequently to the Inspectors in the interviews for this report.

23. Under the terms of reference of the Executive Board, there is some limited delegation to the Managing Directors of PTC and PCF in respect of programme funding. The former may approve stand-alone projects of less than US$ 1 million for funding by external sources; the latter may approve UNIDO funding related to programming missions and the preparatory phases of the integrated programmes of less than US$ 25,000.[28] Essentially, though, control over programmable funds remains centralized in the Executive Board, which makes the decisions about the allocation of larger amounts of "seed money" from the regular programme of technical cooperation.

24. As outlined above, formal instruments exist setting out certain delegation of authority. These instruments were reviewed by the JIU in a recent report on the delegation of authority and it was concluded that "their holistic character could be regarded as a best practice".[29] However, the Inspectors were informed in the preparations for this report that the UNIDO Internal Oversight Group (IOG) had reviewed the decentralization of financial resources and concluded that while activities were implemented at a faster pace, much of the financial control over implementation was still centralized. The interviews also revealed a strong perception in all quarters of the Organization that management remained highly centralized and that, in practice, delegation of authority was largely absent. Apart from recruitment, examples given were mission

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[22] UNIDO web site.
[23] DG/AI No. 6, 13 May 1998, paras. 2 and 4.
[24] Ibid., paras. 54-56.
[25] FOA/AI.2, 14 May 1998. In FOA/AI.3 it is noted that UNDP would continue to provide certain financial and administrative services to UNIDO field offices, including disbursement against certified documents, as well as accounting, treasury functions and reporting.
[26] FOA/AI.4, 5 and 6, 14 May 1998; FOA/AI.4 Add. 1, 26 November 1999.
[27] DG/AI/No. 10, 8 March 1999, para. 3; DG/AI/No. 14, 5 June 2001, para. 9.
[28] UNIDO Intranet.
[29] "Delegation of authority for the management of human and financial resources in the United Nations Secretariat", JIU/REP/2000/6, para. 54.

travel and the hiring of consultants, which are personally approved by the Director-General, seemingly in all cases. While the Inspectors are aware that low morale among the staff may influence perceptions, they believe that the conclusions of the IOG merit attention, and that the provisions of the instruments promulgated on delegation of authority should be closely observed. They are also of the view that the Organization should institute appropriate delegation of authority in human resources management.

D. Management information systems

25. In common with other organizations in the United Nations system, UNIDO is continuously engaged in developing and upgrading the information and communication technology (ICT) systems that support the business processes and goals of the Organization. The demand by senior management for timely and accurate information for decision-making has been the driving force behind the improvement of these systems. In response to these demands, a needs assessment exercise was carried out on the information and ICT needs of all users in UNIDO, and an initial management information strategy was drawn up in mid-1999. This included a cost benefit analysis of the three options open to the Organization: to remain on the mainframe of the International Atomic Energy Agency (IAEA) and further integrate existing systems; to adopt the United Nations integrated management information system (IMIS); or to opt for a commercial package to replace existing systems – the option that was eventually chosen. Logistical and financial constraints, however, have prevented the Organization from implementing a complete enterprise resource planning (ERP) solution, and systems are being replaced in a phased approach, starting with the financial and accounting systems.

26. The needs analysis pointed to a pressing requirement for improved financial systems covering, inter alia, the regular budget, technical cooperation and assessed contributions, since these systems were being run on mainframe-based programmes that were up to 30 years old. The upgrading was also necessary to facilitate the switch to a single currency system of assessment (the euro) for contributions to the regular budget, to be implemented from the 2002-2003 biennium. In an international competitive bidding process, the Agresso financial package was chosen for the development of a new financial performance control system (FPCS) at a cost of some US$ 1.4 million, to be financed from the regular budget of the ICT Unit.

27. The first stage of the new system was completed at the end of 2000 within the approved budget, and the system was used for the preparation of the programme and budget proposals for 2002-2003, as well as the processing of all accounting and financial transactions from the beginning of 2001. It was, however, necessary to run the old mainframe system in parallel through 2001 to ensure that complete financial information was available for the preparation of the financial statements for the biennium and other required reports.[30] Certain problems arose in reconciling the two sets of accounts, but these were eventually resolved. The External Auditor, who regularly reviewed the implementation of the FPCS, noted that the biggest obstacle was the "lack of staff, especially on the middle-management level, as a consequence of excessive down-sizing in administrative offices of UNIDO".[31]

28. The External Auditor put the total implementation costs of FPCS at about US$ 1.7 million, which would appear to compare very favourably with similar projects in other international organizations, although measuring such comparative costs is fraught with difficulties.[32] The funding was made available within the budget by reducing the costs of the mainframe services obtained from IAEA. As far as possible, the administrative processes of UNIDO were adapted to the Agresso package, although problems arose with the support costs module and some other features, which had to be customized. The system was being extended to include financial aspects of personnel management such as travel, as well as purchasing and contracting. It had also been made available to users such as allotment holders and project and programme managers, although, with the exception of Lagos, not to the field offices.

29. UNIDO reported that it had received good support from other organizations of the United Nations system, both in Vienna and elsewhere. Staff observed all company presentations to ODCCP (now UNODC) and received all requests for proposals and other documentation from the latter, as well as from IAEA. Joint workshops were held with ILO on human resources management and payroll, and United Nations Headquarters provided detailed briefings on IMIS. FAO also provided information on its systems. Due to differing needs, however, especially with respect to technical cooperation, and the adoption of the euro as the base currency, it was not considered possible to undertake joint implementation with another organization.

30. In the next phase of the process to upgrade the management information systems, the existing

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[30] GC.9/10, 22 October 2001, para. 20.
[31] IDB.26/2-PBC.18/3, 3 June 2002, para. 34.
[32] The JIU noted in a recent report that "each United Nations system organization computes IT project costs differently, and no common way of computing the costs has been established". See JIU/REP/2002/9, para. 45.

personnel systems – interlinked legacy systems covering recruitment, payroll, project personnel, pension funds etc. – will be replaced by a modern human resources management package. The Inspectors were initially informed that this would have to be rolled out by the end of 2003, when UNIDO would stop using the IAEA mainframe; it was budgeted for in the 2002-2003 biennium. A decision on the implementation of the new system was being delayed, however, until the International Civil Service Commission (ICSC) had reported on its review of pay and benefits in the United Nations system, and until all the financial systems were completed in Agresso. The Organization thus appeared to be facing a tight deadline for the development and implementation of the human resources management (HRM) system, and the Inspectors understand that it is now planned to continue on the mainframe through 2005. This will help to avoid the risks associated with rushed development, particularly in respect of the interface with FPCS and other systems.

31. It is well recognized that financial and HRM systems share much data in common and must closely interact to provide the necessary functionality. It is also likely that systems integration and cross-platform support would stretch the slim resources of UNIDO if software other than Agresso were chosen to support HRM. These considerations should be factored in when the international competitive bids to provide the HRM software are being assessed by the Organization.

32. UNIDO has also developed an Intranet-based executive management system – the Infobase – that pulls information from a variety of legacy mainframe systems and integrates it into a reporting system with drill-down capabilities, cross linking etc. As the legacy systems are being replaced, Infobase is being used to report from the new client-server systems, considerably reducing paper reporting with consequent cost savings. In respect of linking field offices to the Intranet, progress had been made, but it depended on the situation in the field offices themselves. Apart from the issue of the security of the connectivity, there was a financial constraint since Internet connectivity was financed from the field offices budget and not the ICT budget. At present, field offices send reports to Headquarters and a consolidated field offices report is prepared by the Programme Coordination Branch. It was pointed out that while remote access for data entry was possible, it was not necessary at this stage since, with one exception, field offices were not actually implementing technical cooperation projects.

33. The key complementary role of knowledge for decision-making in the substantive programmes has also been recognized by the senior management of UNIDO, and knowledge management tools and techniques are being introduced to help improve the quality of its technical assistance work. In the 2002-2003 biennium, it is planned to introduce a document management system, regarded as an essential part of the Organization’s efforts to manage its knowledge assets.

III. PLANNING, PROGRAMMING, BUDGETING, MONITORING AND EVALUATION

34. There has been considerable interest in the United Nations system in recent years in the "results" approach to management, and many organizations have adopted or are progressively moving towards results-based planning and budgeting, often in the context of a reform programme. These developments have been reviewed by the JIU in recent reports, which have highlighted the expected benefits, as well as some of the problems, notably the difficulties in devising meaningful performance indicators.[33] Member States of UNIDO have recognized the potential of performance indicators for the "assessment of the implications and monitoring of the implementation of the UNIDO reform process, including the performance of the Organization, in particular through the programme and budgets".[34] The development of performance indicators, however, is still a work-in-progress by the Secretariat. The Inspectors note that the strategic guidelines for the medium-term programme framework 2004-2007, adopted by the Board in November 2002, call for a "… comprehensive results-based management system incorporating effective methods of performance measurement, monitoring and evaluation …".[35]

A. Planning, programming and budgeting

Long- and medium-term planning

35. In common with other organizations of the United Nations system, UNIDO has normally used a medium-term plan and the biennial programme and budgets as its main planning instruments. The medium-term plan was first approved by the Conference in 1989 as a six-year rolling plan which listed the many activities in the field of industrial development that the Member States regarded as important or desirable. The early medium-term plans thus reflected the universality of the mandate of the Organization as contained in the Constitution.

36. Against the background of the changing global economic and political environment at the beginning of the 1990s, as well as reform initiatives within the United Nations system and the emerging financial difficulties of UNIDO, attempts were made by Member States to prioritize activities. It was recognized that the global objectives of the medium-term plan were difficult to operationalize, but a consensus on priorities was evasive.[36] Eventually it was agreed that the six-year planning horizon was unrealistic in the rapidly changing environment, and that a four-year period was more appropriate; further, the medium-term plan was renamed the medium-term programme framework (MTPF) from 1998 as a recognition that the plan should serve as the principal framework for the biennial programme.[37] The Director-General is thus required to submit to the Board in the first year of each fiscal period, through the Programme and Budget Committee (PBC), proposals for a MTPF for the four years that follow the current fiscal period.

37. In the period 1994/1995, UNIDO undertook a process of programmatic and managerial reform, as well as organizational restructuring. The proposals for the MTPF 1998-2001, which were presented to the Board in November 1996, incorporated a redefinition and focusing of the Organization's priorities and programmes, and were drafted in the knowledge that the United States would withdraw from the Organization at the end of 1996.[38] The plan outlined the dual role of UNIDO as a global forum for supporting and promoting industrial development, and as a provider of integrated technical cooperation services. Seven thematic priorities were identified, as well as five issues for special consideration, and three supporting activities. However, the proposed MTPF 1998-2001 was overtaken by events.

38. At the beginning of 1997, UNIDO technical cooperation activity was in some 2,000 small, isolated projects that appeared to have limited impact in individual countries. Eight technical assistance branches dealt with some 45 thematic groups which amounted to over 200 types of technical assistance, but there was overlap between the branches and a perceived lack of quality projects. A radical new approach was called for, and a new plan for the future of the Organization was drawn up: the "Business Plan on the Future Role and Functions of UNIDO". The Business Plan was essentially an emergency restructuring plan in response to the severe financial crisis facing the Organization,[39] and it has formed the basis for most of the recent organizational and programmatic transformation. The Business Plan, which is not time bound, is the

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[33] "Results-based budgeting: the experience of United Nations system organizations", JIU/REP/99/3 (A/54/287, 30 August 1999); "The results approach in the United Nations: implementing the United Nations Millennium Declaration", JIU/REP/2002/2 (A/57/372, 3 September 2002).
[34] IDB.19/6, 26 March 1998, para. 1.
[35] IDB.26/15, 15 November 2002, para. 31.
[36] "Priorities within the medium-term plan, 1994-1999", IDB.10/29, 29 October 1992; "Relative priorities within the medium-term plan, 1994-1999", IDB.11/28, 23 June 1993.
[37] "Medium-term plan, 1996-2001", IDB.13/10-PBC.10/12, 31 May 1994, paras. 4-5.
[38] "Medium-term programme framework, 1998-2001", IDB.16/23-PBC.12/13, 16 October 1996.
[39] The Business Plan required a reduction of about 20 per cent in UNIDO's regular budget for 1998-1999.

closest there is to a long-term strategic plan for the Organization, although it contains elements, such as the structure of the Secretariat, which would not normally be found in a long-term planning document.

39. The Business Plan sought to focus UNIDO activities and redefine its programmatic functions and principles. Activities were regrouped in two areas: strengthening of industrial capacities; and cleaner and sustainable industrial development, while several areas of activity were listed for discontinuation. In addition, a geographical, sectoral and thematic concentration of activities was envisaged: least developed countries in Africa; agro-based industries; and small and medium-sized enterprises (SME). The integration of women in industrial development was also emphasized. Activities were to cover the dual role of UNIDO: its technical cooperation (or operative function); and its global forum (or normative) function. Most importantly, the Organization would provide its support primarily in comprehensive packages of integrated services and would further strengthen its capacity in this regard through inter-disciplinary team-building.[40] A new organizational structure was contained in the Business Plan; it also envisaged decentralization of activities and strengthened field representation through redeployment of resources and delegation of authority to the field.

40. While the Business Plan rendered the MTPF 1998-2001 "no longer applicable",[41] the medium-term programme framework has been retained. The proposals for the MTPF for both 2000-2003 and 2002-2005 appeared to follow rather than lead the programmatic transformation that had been taking place in the Organization, reflecting a transitional stage in the planning process in which the programme and budgets document has remained the main planning tool.[42] However, the MTPF 2002-2005 was developed further prior to the Conference in December 2001 and included a review of the priorities for the medium term.[43] The proposals for the MTPF 2004-2007 anticipate the need for further adjustments in the substance and methods of delivery of UNIDO technical cooperation services.[44]

41. Reporting to the Conference in December 2001 on the implementation of the Business Plan, the Director-General noted that "the need for further elaboration and refinement as well as reassessment was inherent in the Plan".[45] For its part, the Conference confirmed, in its resolution on the MTPF 2002-2005, that "in the context of the ongoing reform process, the Business Plan remains the basis for enabling UNIDO to adapt it functions and priorities … and ensure its viability and efficiency".[46]

42. In implementing the Business Plan, UNIDO has undergone a transformation which has been crucial to its survival, but it has encountered certain hurdles, especially in respect of funding shortfalls for the integrated programmes which may force modifications to this programming approach. Similarly, the drive to decentralization has been stymied by lack of financing. The dynamic for change is still very strong, and the future direction of the Organization has been the focus of the Board of Directors recent annual retreats, with an emphasis on the development of a corporate strategy. A draft proposal for UNIDO's mission statement and corporate strategy was considered at the Board of Directors Retreat 2001, and it was concluded that it should be urgently finalized.

43. Member States have also continued to play an active role. An outline strategy paper which was presented by Japan to the Board in May 2002 emphasized that UNIDO should better focus its technical cooperation activities on areas where it has a comparative advantage over other agencies.[47] This paper formed the basis of intersessional consultations with other Member States and the UNIDO Secretariat, and resulted in a note by Japan to the Board in November 2002 setting out strategic guidelines for the formulation and implementation of the medium-term programme frameworks 2002-2007.[48] These strategic guidelines, which were adopted by the Board, sharpen the focus of UNIDO's technical cooperation activities and identify critical issues in the provision of technical cooperation services; they are considered to be complementary to the Business Plan.

44. Although UNIDO has retained the medium-term programme framework, it has been used since 1997 more as a mechanism to report on progress in implementing the Business Plan than as a programme planning instrument for the medium term. There is a sharp contrast between the elaborated proposals for the MTPF 1998-2001 (a document of 165 paragraphs) with the skeletal proposals for the MTPF 2004-2007 (12 paragraphs), and it is clear that the Business Plan of 1997 remains the paramount planning document. It can be argued, however, that the Business Plan has fulfilled its

[40] GC.9/11, 12 November 2001, paras. 4-8.
[41] GC.7/Dec.15, 4 December 1997.
[42] IDB.21/13-PBC.15/13, 8 April 1999; IDB.23/4-PBC.16/5, 28 June 2000.
[43] GC.9/11, op. cit., paras. 36-87 and annex.
[44] IDB.26/8-PBC.18/9, 24 July 2002, paras. 6-11.
[45] GC.9/11, op. cit., para. 3.
[46] GC.9/Res.2, 7 December 2001.
[47] Permanent Mission of Japan to the International Organizations in Vienna, "Outline of a UNIDO Strategy Paper", Press Release, May 2002.
[48] IDB.26/15, 15 November 2002.

primary function of refocusing the Organization in response to the financial crisis and should now be reconsidered, the more so since it no longer reflects the current structure of the Secretariat, and since the effectiveness of decentralization, as well as the integrated approach to programming, may be open to question at this time.

45. At the very least, the Business Plan should be revised to take account of these factors, although a bolder approach would be to replace the Business Plan with a long-term strategic plan that sets out the corporate strategy of UNIDO and related strategic objectives, and provides the framework for the medium-term plan and the biennial programme and budgets. The medium-term plan should then be structured to provide clear linkages between the long-term strategic objectives of the Organization and each of the programmes in the biennial programmes and budget. At the same time, a results-based format should be adopted for the medium-term plan and the programme and budgets. The Inspectors believe that these initiatives would be fundamental to the move to a comprehensive results-based management system as called for by the Member States.

46. UNIDO may wish to consider planning models developed by other international organizations. The Food and Agriculture Organization of the United Nations, for example, has recently adopted a model which incorporates a strategic framework with a planning horizon of 10-15 years, a six-year rolling medium-term plan to establish programme priorities, and a two-year programme of work and budget to appropriate resources.[49] In the case of UNIDO, the choice of planning horizons will ultimately reflect the mandate and particular circumstances of the Organization, although the Inspectors are of the view that the present four-year rolling time frame should be retained for the medium-term plan.

Programming

47. Following the adoption of the Business Plan, the Secretariat embarked on a major reprogramming exercise in 1998 and early 1999 by which technical cooperation activities were identified and described in terms of a number of service modules – 16 initially, but subsequently reduced to eight. Each service module addresses a major development concern. Based on these service modules, and together with the countries receiving technical cooperation assistance, the Organization formulated a new portfolio of integrated programmes/country service frameworks in order to meet the requirement of the Business Plan to develop demand-oriented integrated packages of services in place of isolated projects.[50] Through the service modules, UNIDO seeks to provide specific support services, either singly or in combination with other service modules, to address major problems of industrial development of a country at the national level or those of a particular geographic area within a country. The requirements of the clients of UNIDO are the major driving force in this process. At the end of 2001, the UNIDO project portfolio consisted of 46 integrated programmes as well as 131 stand-alone projects.[51]

48. Integrated programming required the development of a new management framework in which UNIDO was to operate as a "matrix organization" consisting of two dimensions (regional and functional) with services developed and delivered primarily by cross-functional teams drawn from the various technical branches and led by "empowered" team leaders.[52] The new management framework also envisaged the development of a comprehensive cost accounting system and a new evaluation mechanism to enable the Organization to assess the cost-effectiveness of its operations. A new service management cycle was designed to translate the management framework into operating procedures, from service planning, identification and screening, through programme and project development and approval, and funds mobilization, to implementation and monitoring, and evaluation and follow-up. Guidelines were also developed for the formulation of the integrated programmes.[53] Although the elements of the new management framework were clearly documented in 1998, the Inspectors understand that some components, such as the new cost accounting system, are not yet in place, while the new evaluation mechanism is still being refined.

49. Interdisciplinary team-building may yield benefits by enhancing the impact of UNIDO's programmes on the ground, but at the management level this approach has given rise to problems in respect of decision-making and accountability. While substantive or technical issues arising in an integrated programme are the responsibility of the Director of the technical branch in which the programme is located, overall accountability is less clear since the team may be assembled from several technical branches. The team leader has responsibility for the team, but within the team each component reports to its own technical branch. In terms of selecting team leaders, both the regional bureaux and the technical branches can make proposals, but the decision is made by the Executive

[49] "The Strategic Framework for FAO 2000-2015", Rome, 1999.

[50] GC.9/11, 12 November 2001, paras. 18-19.

[51] "Annual Report 2001", IDB.25/2-PBC.18/2, 27 February 2002, p. 51.

[52] "New management framework, service management cycle and cost accounting", DG/AI/No. 9, 21 October 1998.

[53] DG/AI/No. 11, appendix, May 1999.

Board, and in practice the team leader reports to the latter.

50. In addition to the integrated programmes, UNIDO delivers technical cooperation through stand-alone projects, mainly in its capacity as an executing agency for both the Montreal Protocol and the Global Environment Facility (GEF). Montreal Protocol activities represent a significant part of UNIDO's technical cooperation assistance; in the period 1998-2002, for example, it comprised over 30 per cent of technical cooperation delivery each year.[54] Since 2001, there has also been direct collaboration between GEF and UNIDO, increasing the relative importance of GEF activities in the Organization's technical cooperation portfolio. As an executing agency, UNIDO is subject to the rules and procedures of the Montreal Protocol and the GEF in the design and delivery of its projects under these multilateral funds, as well as in their evaluation.

51. A third programming modality, in the form of thematic initiatives, has recently been introduced by the Director-General with the intention of focusing on a limited number of high-priority and high-visibility fields of activity. The new initiatives, which will draw on the existing service modules, are intended to supplement the integrated programmes, country service frameworks and stand-alone projects, and it is hoped they will give an impetus to funds mobilization. Two initiatives have already been launched – trade facilitation and market access, and rural energy – both of which address problems which are high on the international development agenda. The new initiatives form part of the proposals for the MTPF 2004-2007, and have been discussed in consultations with Member States. Nevertheless, some delegations to the Board in November 2002 sounded a note of caution in respect of the need to secure funding before new initiatives are launched, as well as remaining within the priorities of the Business Plan. The Inspectors are concerned that the Organization risks spreading itself too thinly as it tries to develop a range of thematic initiatives with regional application, and suggest that only a limited number of these new initiatives be taken forward in a pilot phase.

Budgeting

52. UNIDO's programme and budgets (PBs) consists of a programme of work together with corresponding estimates for those activities to be financed from the regular budget and those to be financed from the operational budget.[55] There were fundamental changes in the presentation of the programme and budgets 1998-1999, reflecting a new, programmatic budget approach and format, as well as the new programmatic priorities of the Business Plan, the streamlining of the structure of the Organization, and the shift in the balance of operations and resources between Headquarters and the field.[56] In prior budgets, programmes were largely equated with organizational units. Under the new format, "based on programmatic and integrated sets of activities", the complementarities and synergies would be clearly identified in cases where different organizational units were making distinct contributions to common programmatic objectives.[57]

53. The presentation of the PBs 1998-1999 was the first attempt to align the Business Plan, the integrated programmes/service modules and the budgets, a process which was carried further in the PBs 2000-2001. For the latter biennium, the presentation at the sub-programme level was discontinued, however, except for the Regional Programme, greatly reducing the detail in the budget document. The preamble to the PBs 2000-2001 emphasized the importance of the service modules in ensuring "cross-organizational cooperation and maximum usage of synergies within the Organization", as well as laying "the basis for promoting external complementarity and cooperation ...".[58] In the PBs 2002-2003, the number of service modules was reduced from 16 to 8 by clustering complementary services and eliminating overlaps, "[t]o further focus activities, integrate services, and streamline operations …".[59]

54. The main thrust of the changes in the presentation of the programme and budgets over the last three bienniums has been towards a progressive refinement of the programmatic framework in the context of the Business Plan. However, important elements have been missing for the programme and budgets to be considered "results-based". Although each programme has been presented in terms of "context", "objective", "services provided and expected outputs", expected results or performance indicators by which to measure actual impact have not been included.

55. The Inspectors were informed by the Secretariat that "generic" output indicators were to

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[54] UNIDO Infobase.

[55] The Constitution of UNIDO provides that the expenditures of the Organization shall be divided into those to be met from assessed contributions - the regular budget - and those to be met from voluntary contributions - the operational budget. The regular budget provides for expenditures for administration, research and other regular expenses; the operational budget, for expenditures for technical assistance and other activities. Provision is also made for an Industrial Development Fund, financed through voluntary contributions, to enhance the ability of the Organization to meet the needs of the developing countries.

[56] "Programme and Budgets, 1998-1999", GC.7/21, 21 November 1997, para. 7.

[57] Ibid., paras. 8-13.

[58] "Programme and Budgets, 2000-2001", IDB.21/7-PBC.15/7, 2 March 1999, para. 13.

[59] "Programme and Budgets, 2002-2003", IDB.24/3-PBC.17/3, 16 March 2001, para. 13.

be included in the PBs 2004-2005. This document was issued as the present report was being finalized, and the Inspectors note that each programme is now presented in terms of "need and objective" and "activities and outputs". In addition, a list of performance indicators for each programme under each of the major programmes has been included as an annex to the main budget presentation.[60] It is not made clear why these indicators have been placed in an annex rather than embedded with the respective programmes, but this may reflect that the development of these indicators is still a work-in-progress, as is reviewed in the section that follows. As a next step in the enhancement of the results-based format, it may be necessary to return to a programme and budgets presentation at the sub-programme level, and incorporate performance indicators at that level of detail. The Secretariat has assured the Inspectors that these issues are under continuous review.

B. Measuring programme performance

56. The efficient measurement of programme performance requires clear procedures and well-designed instruments, as well as effective management of the process. It is also important that the lessons learned from such exercises be fed back into subsequent planning and policy-making if they are to add value. As noted above, the strategic guidelines for the MTPF 2004-2007 call for a comprehensive results-based management system for the Organization incorporating effective methods of performance measurement, monitoring and evaluation.

Performance indicators

57. In a note on performance indicators and evaluation presented to the Board in May 1999, the Secretariat stated that the alignment of the Business Plan, the new service modules and the budgets had facilitated the design of specific performance indicators, and that nine organization-wide performance indicators had been developed.[61] Work was underway to define performance indicators for all substantive programmes under major programmes C and D. These performance indicators (e.g., manufacturing value added; enhanced productivity; elimination of ozone-depleting substances) would be used to assess the effectiveness and impact of UNIDO services in terms of the three "Es" (competitive Economy, productive Employment, sound Environment). In addition, team leaders of the integrated programmes were developing specific performance indicators to assess effectiveness and impact of their programmes.

[60] "Programme and Budgets, 2004-2005" IDB.27/3-PBC.19/3, 20 March 2003, annex D.
[61] IDB.21/24, 21 May 1999.

58. In the same note, the Secretariat sounded a caution on performance indicators, pointing out that the assessment of development services takes time since it is normally several years before impact emerges. Furthermore, many of the external factors that influence project impact are beyond the Organization's control. And the impact of UNIDO's services will be limited by the resources available. The Organization's catalytic role was also emphasized and the need to capture the multiplier effects of UNIDO's services in the measures of impact.[62] The same issues were raised with the Inspectors during the interviews for this report.

59. As reported to the Board in 1999, performance indicators were being developed at three levels: organization-wide; substantive programmes in the PBs; and integrated programmes. In the Director-General's annual reports for 1999 and 2000, organization-wide "selected performance indicators" were among the appendices which made up the "programme performance report".[63] In the annual report for 2001, however, such performance indicators were incorporated into a "prototype Balanced Scorecard" – a new approach to performance measurement reportedly being used in both the public and private sectors. UNIDO's Scorecard is still in a developmental stage and will be revised to take account of experience, as well as the design and updating of indicators for the integrated programmes.[64] As for the programme and budgets, as noted above, while specific performance indicators were not included in the 2000-2001 or 2002-2003 bienniums for any programme, a list of programme performance indicators has been complied in an annex in the PBs 2004-2005.

60. At the level of the integrated programmes, the programme documents set out the broad objectives of each programme in relation to the country's industrial objectives and hence to its industrial development goals, while at the component level, the immediate objective is identified along with related outputs and "success indicators". Success indicators at the component/sub-component level are also being used by team leaders in progress reports, as well as in self-evaluation exercises. In addition, the Evaluation Services Branch (ESB) was finalizing in 2002 a set of guidelines for the evaluation of projects and programmes which included an indicative list of generic results indicators meant to facilitate results-based project/programme formulation and evaluation.

61. The evaluation guidelines clearly set out the requirements for measuring results, including the

[62] Ibid., para. 4.
[63] IDB.22/2-PBC.16/2, 24 March 2000, appendix O; IDB.24/2-PBC.17/2, 23 March 2001, appendix M.
[64] IDB.25/2-PBC.18/2, 27 February 2002, pp. 43-44.

need to collect baseline data at the programme/project formulation stage against which progress can be measured. A continuum of generic results indicators – milestones, effect indicators, outcome indicators and impact indicators – is linked to the hierarchical structure of the project/programme document. At the highest level, the indicators are intended to measure impact on a country's development goals and Millennium targets.[65]

62. The development of performance indicators was described by the External Auditor as "[p]erhaps the most difficult initiative, and the most important" in the work being undertaken to measure programme results. In his view, "many types of performance indicators and targets … need to be developed, but the most important are the key results the Organization is trying to achieve".[66] While the Inspectors agree that key results are very important, particularly in the context of reporting to Member States, they recognize that the Secretariat has made solid progress in incorporating success indicators into programme planning and reporting. However, team leaders and project managers are individually responsible for devising success indicators, and inconsistencies may therefore arise, making consolidated reporting more difficult. The generic results indicators developed by ESB should enhance consistency, but this should be supported by training for programme and project managers, preferably in the context of overall training in programme formulation.

Monitoring and evaluation

63. The Organization has developed a set of guidelines for the implementation and monitoring of integrated programmes.[67] Until recently, monitoring of implementation was the responsibility of the Programme Coordination Branch of PCF, which provided monthly performance reports on the Infobase incorporating technical cooperation analysis and funds mobilization information. These monthly overview reports provide management with a tool to assess the strengths and weaknesses in technical cooperation delivery and take remedial action as required. Monitoring functions have now been transferred to the Office of the Managing Director of PCF, and, with the establishment of the Office of Comptroller General, further refinements are expected. Monitoring of the integrated programmes is also recorded in progress reports which are prepared to a standard format by individual team leaders, and assembled as an omnibus report for the Board.

64. ESB is mandated to provide "analytical and objective feedback to management on the relevance, efficiency, effectiveness and sustained impact of UNIDO services for the purpose of enabling the improvement of the quality of design and delivery of current and future UNIDO services".[68] ESB manages and coordinates several types of evaluation of technical cooperation programmes and projects: annual self-evaluation; annual client feedback questionnaires; independent in-depth evaluation (mid-term and terminal); and ex-post evaluation. Self-evaluation, which is conducted by project/programme managers and counterparts during implementation, as well as at the close, appears to duplicate to some extent the monitoring activities of PCF, and adds to the workload of the former. The Secretariat is reviewing these reports with a view to producing a consolidated format to the extent possible. The coordination of monitoring and evaluation activities should also be facilitated when all the oversight functions are brought under the responsibility of the new Office of Comptroller General.

65. In updating UNIDO's evaluation guidelines for projects and programmes, ESB has drawn on best practice in other international organizations, notably UNDP, which is considered a leader in this field, as well as the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD). As noted above, the guidelines incorporate a hierarchical set of generic performance indicators, including indicators of impact on development goals, which are of major importance in assessing the overall performance of the Organization. As such, the guidelines have the potential to be a powerful management tool, and an important mechanism for reporting to the Member States, though much depends on how effectively the impact of the programmes/projects can be shown to "trickle up" through the hierarchical links to impact on a country's development goals. Certainly, though, the guidelines provide the basis for the effective system of evaluation as called for by Member States.

C. Reporting on performance to Member States

66. The Director-General's annual report to the Board, which provides an overview of the work of the Organization, includes a chapter on performance management. In the 2001 report, a prototype "Balanced Scorecard" was introduced as a framework to track and measure performance using existing performance instruments. The Scorecard integrates – or balances – four interdependent sets of measures associated with respective strategies: customer measures; internal process measures;

[65] "Guidelines for the evaluation of projects and programmes", draft, 5 August 2002, sect. 3.4.
[66] IDB.26/2-PBC.18/3, 3 June 2002, para. 130.
[67] DG/AI/No. 13, appendix, December 2000.
[68] UNIDO/DGB/(O).86/Add.9, 15 February 2002, para. 31.

innovation and learning measures; and financial measures, and the approach is said to "minimize information overload by forcing managers to focus on critical measures".[69] The annual report also includes a range of statistical appendices under the general heading "programme performance report".

67. The Director-General also reports on performance to Member States in the context of the medium-term programme framework and the programme and budgets, as well as in other specific reports, often in response to the decisions and resolutions of the governing bodies. However, in the context of the Organization's move to a system of results-based management, it will be necessary to develop a comprehensive programme performance report along the lines of that prepared by the World Intellectual Property Organization (WIPO). Among the organizations of the United Nations system, WIPO has been a pioneer both in the introduction of results-based programming and budgeting, and in its reporting on biennial programme performance.[70] In particular, the Inspectors would recommend that UNIDO adopt the same tabular format which summarizes at the sub-programme level the main results achieved and corresponding selected performance indicators.

[69] IDB.25/2-PBC.18/2, op. cit.

[70] See, for example, "Program performance in the 1998-1999 biennium", A/35/2, 7 August 2000.

IV. FINANCIAL SITUATION OF UNIDO

A. Collection of assessed contributions

68. In common with other organizations of the United Nations system, UNIDO experiences the problem of late or non-payment by Member States of assessed contributions to its regular budget and hence the accumulation of arrears. The Organization has been particularly afflicted by this malaise: the total of outstanding assessed contributions as at 31 July 2002 was some €116.4 million, of which €3.9 million was outstanding for 1986-1993, €48.2 million for 1994-1995, and €40.3 million for 1996-1997.[71] Of the total outstanding, €69.3 million was owed by a former Member State – some 60 per cent – for the years 1994-1996.

69. At the end of September 1997, UNIDO was faced with a critical situation: the cash available was barely sufficient to cover the Organization's requirements for one month, the Working Capital Fund had a zero balance, and there was a high risk of insolvency. Among other measures taken to address the crisis, the intersessional open-ended discussion group on timely payment of assessed contributions was requested by the Conference to present concrete recommendations to the nineteenth session of the Board in May 1998.

70. In its report, the group noted the critical economic and social situation of the 43 least developed countries in arrears, and the related problem of the scarcity of foreign currency, which impeded payment. It proposed that these countries be allowed to make payments in local currency through the local UNDP office, and that payment plans be set up to schedule the arrears, while for other countries in arrears, payment plans in UNIDO official currencies could be negotiated.[72] As for the arrears owed by the United States, various political and legal options were considered, the group favouring the political approach, initially at least.[73]

71. Payment plans have already been introduced by other organizations in the United Nations system, as well as various types of incentive scheme to encourage timely payments. Incentive schemes allocate incentive points to eligible Member States in relation to the timing and amount of the payments made during a given year, and the incentive points are then linked to some form of financial award or "incentive amount". A preferred mechanism is a mathematical formula which gives comparatively greater incentive to those Member States paying early in the year, but also some incentive to those paying in the second half of the year – the so-called "S" curve formula. The open-ended discussion group recommended that UNIDO adopt such an incentive scheme, and suggested that the incentive amount might be the interest earned under the regular budget in a given year.[74]

72. The Board adopted the report of the open-ended discussion group and requested the Director-General to act on its recommendations. However, the response of Member States in arrears to payment plans has been rather slow.[75] The Director-General has continued to encourage Member States to pursue this option, through both formal contacts and informal consultations. At the time of the Conference in December 2001, 15 payment plans had been drawn up, but only one was in operation, and negotiations were being conducted with three more Member States; at the time of writing, one of those had been successfully concluded, and one other negotiation had been initiated.[76]

73. As for the incentive scheme, the Conference authorized the Director-General at its eighth session to distribute the interest earned in excess of budgetary estimates for 1999 to eligible Member States in accordance with the "S" curve incentive mechanism, or to utilize the funds for purposes specified by those Member States (GC.8/Dec.10). However, the scheme appears cumbersome to service: reporting to the ninth session of the Conference in 2001, the Director-General noted that "extensive administrative work is required to solicit from each eligible Member State the purpose of utilization of its share …", and that a simpler solution needed to be found; however, an amount of US$ 488,197 was to be distributed to eligible Member States on 1 January 2002.[77]

74. In response to decision IDB.26/Dec.3, the Secretariat provided information to the nineteenth session of the PBC on incentive and disincentive measures in place in other organizations of the United Nations system.[78] A recent report of the United Nations Secretary-General has also examined measures to encourage Member States to reduce and eventually pay their arrears.[79] Incentive payments were considered questionable on a variety of grounds, including appropriateness, effectiveness and

[71] IDB.26/9-PBC.18/10, 16 August 2002, annex I.
[72] IDB.19/12, 8 May 1998, paras. 8-10, 17 and annex p. 8.
[73] Ibid., paras. 6 and 30-37.
[74] Ibid., paras. 23-29.
[75] Of the 62 Member States in arrears who were contacted in mid-1998, only one had concluded a payment plan by September 1999 and a further nine had expressed an interest. See GC.8/17, 29 September 1999, para. 11.
[76] GC.9/10, 22 October 2001, para. 9; IDB.25/6, 19 April 2002, para. 15; IDB.26/9-PBC.18/10, op. cit., para. 12.
[77] GC.9/10, op. cit., para. 13.
[78] IDB.27/10-PBC.19/10, 26 March 2003, paras. 18-20 and annex III.
[79] A/57/76, 7 May 2002.

administrative complexity. One option considered in the report was the withholding of shares of budgetary surpluses from Member States not current with their financial obligations, as is the case in UNESCO under its Financial Regulation 4.3.

75. On the basis of aggregate data, the Director-General has been successful in stabilizing the financial situation of the Organization: as at 31 July 2002, assessed contributions outstanding for the 1998-1999 and 2000-2001 bienniums were some €8.9 million and €6.7 million respectively, i.e., 25 per cent lower in the more recent biennium.[80] Another measure – the suspension of voting rights of Member States in arrears in accordance with Article 5, paragraph 2 of the UNIDO Constitution – also suggests an improvement: voting rights in the Conference were suspended for 53 Member States as at 31 July 2002 compared with 63 suspensions in 2000.[81]

76. In reporting on the 2000-2001 biennium, the External Auditor conducted an analysis of the ageing of assessed contributions receivable (excluding those of the United States), and found an increase in those older than four years, "whereas the collection of younger receivables was excellent".[82] The External Auditor also noted that the Organization had overcome the severe liquidity problems experienced in the past, and had "achieved financial stability for the smooth implementation of its programmes".[83] Reporting to the Board, the Director-General stated that as at 31 December 2002, the collection rate of 2002 assessed contributions was 93.1 per cent – the highest since UNIDO became a specialized agency.[84]

B. Mobilization of voluntary funds

77. While assessed contributions fund the programmes of the regular budget, the delivery of technical cooperation assistance is for the most part funded from voluntary contributions and other income. In 2001, approximately half of the extrabudgetary funding obtained by UNIDO related to the Montreal Protocol and the GEF, the rest being governmental contributions to the Industrial Development Fund or the trust fund mechanism. These contributions are essential for the implementation of the integrated programmes, as well as stand-alone projects in countries where no integrated programme is operating; they are also now required for the funding of the new initiatives.

78. Integrated technical cooperation programmes have different funding requirements compared with traditional stand-alone projects. Various components are funded by different sources of funds, and some components that are essential to the overall programme structure may not attract funding – or at least not quickly enough. Thus, to launch these programmes and to keep them integrated, UNIDO needs programmable funds that it can allocate flexibly, in addition to special-purpose funds. The indications are, however, that the voluntary contributions have not been adequate to achieve the desired objectives.

79. As at 31 December 2001, the total planning figure for the 46 integrated programmes was some US$ 257 million; the total allocated was some US$ 81 million (32 per cent) while US$ 176 million remained open for funding (68 per cent).[85] The imbalance between Africa and the other regions, as shown in table 1 below, reflects the priority given to Africa in the Business Plan. Nevertheless, even in the African region, 57 per cent of the total planning figure was open for funding at the end of 2001, while more than 70 per cent was open for funding in each of the other four regions.

80. With funding uncertain, it is difficult to see how these technical cooperation programmes can be delivered in an integrated manner, but partial delivery calls into question the efficiency of this approach to programming. In endorsing the Business Plan, Member States approved the concept of integrated programming; the Inspectors believe that their endorsement should also be supported with the requisite voluntary contributions.

81. It must also be questioned to what extent the recent decision to add new initiatives to UNIDO programming modalities represents a response to the disappointing level of funding for the integrated programmes. In a recent report to the Board on the mobilization of financial resources for UNIDO programmes, the Director-General placed considerable emphasis on the presentation of new initiatives at major international development conferences, and stated that these initiatives "would further enhance the opportunities for developing thematic partnerships with donors as well as the scope for mobilizing funds".[86] As already mentioned in chapter III above, the Inspectors believe that the Organization may be spreading itself too thinly by developing new initiatives alongside integrated programmes, and risks that neither will attract adequate funding for effective service delivery.

[80] IDB.26/9-PBC.18/10, op. cit., annex I.

[81] Ibid., para. 10, table 3. Voting rights are suspended if the amount of the arrears equals or exceeds the amount of the assessed contributions due for the preceding two fiscal years; suspension may be waived, however, if failure to pay is due to conditions beyond the control of the Member State.

[82] IDB.26/2-PBC.18/3, 3 June 2002, para.18 and table 6.

[83] Ibid., paras. 23-24.

[84] IDB.27/10-PBC.19/10, 26 March 2003, para. 1 (d).

[85] "Annual Report 2001", op. cit., appendix C.

[86] IDB.26/6-PBC.18/7, 24 July 2002, para. 9.

Table 1: Status of integrated programmes by region, as at 31 December 2001
('000 US dollars and per cent)

	Current planning figures (CPF)[a]	Total funds allocated[a]		Open for funding	
	dollars	*dollars*	*per cent of CPF*	*dollars*	*per cent of CPF*
Africa	101 473	43 445	42.8	58 028	57.2
Asia and the Pacific	36 855	8 033	21.8	28 821	78.2
Arab region	68 743	18 649	27.1	50 094	72.9
Europe and NIS	15 515	3 205	20.7	12 310	79.3
Latin America and Caribbean	34 569	7 993	23.1	26 577	76.9
Total	257 155	81 325	31.6	175 830	68.4

Source: Annual Report 2001
Note: [a] Includes support costs

82. Funds mobilization is the responsibility of a variety of actors. While the Programme Coordination Branch currently manages and coordinates overall mobilization of extrabudgetary resources, the regional bureaux, the team leaders and team members, the field offices and the recipient countries are also actively involved. The Inspectors note from the proposed PBs 2004-2005 that a new programme for financial resource mobilization is to be established under the regional programme charged with, inter alia, the development and management of relations between UNIDO and the donor community.[87] With respect to the integrated programmes, UNIDO has found that donors place great importance on the extent to which the programme is "owned" by the recipient country, and the extent to which it is coordinated with, or part of, system-wide coordination mechanisms such as the United Nations Development Assistance Framework (UNDAF).[88] The field offices have a central role to play in both areas, but are constrained in their activities by limited staffing and financial resources – an issue which is discussed further in chapter VI below.

83. In his 2001 annual report, the Director-General informed Member States that the European Commission was "currently studying the mandates, strengths and activities of the various United Nations organizations with a view to identifying a limited number of strategic partners …".[89] In this context, the Inspectors note that, unlike other organizations of the United Nations system with a technical cooperation mandate, UNIDO does not maintain an office in Brussels. Rather, it has recently upgraded the staffing of the liaison offices in Geneva and New York, even though, as has been pointed out by the External Auditor, the functions of these offices as described in the PBs has not radically changed.[90]

84. The External Auditor was also of the view that a UNIDO office in Geneva was not a suitable location for enhancing cooperation with the European Union and the OECD. The Inspectors fully concur with the views of the External Auditor in this regard. In view of UNIDO's pressing need for voluntary funds, the Inspectors would recommend that through careful redistribution of human and financial resources, an office be opened in Brussels with a strong fund-raising mandate and staffed at the same level as the New York office.

[87] IDB.27/3-PBC.19/3, 20 March 2003, para. 5 (b).
[88] IDB.22/3, 3 April 2000, para. 5.
[89] IDB.25/2-PBC.18/2, op. cit., p. 46.
[90] Audit observation CF/2001-15, 11 December 2001.

V. HUMAN RESOURCES MANAGEMENT

85. Article 11, paragraph 5, of the UNIDO Constitution provides that the "conditions of service of staff shall conform as far as possible to those of the United Nations common system", and in his annual report to the Board on personnel matters, the Director-General includes developments in the common system and the implications for UNIDO. The Inspectors noted, however, differing perceptions among the staff of the extent to which the Organization was in step with the common system, as well as an awareness of differences in staff conditions among the United Nations organizations based in Vienna.[91] The relationship agreement between the United Nations and UNIDO provides for, "to the extent feasible, common personnel standards, methods and arrangements designed to avoid [inter alia] unjustified differences in terms and conditions of employment …".[92] The Inspectors would urge the senior management of the Organization to adhere to the terms of the relationship agreement, and justify in a transparent manner departures from common system conditions of service.

A. Downsizing and restructuring the Secretariat

86. As elsewhere in this report, review of the management and administration of the human resources of the Organization has to be seen in the context of the financial crisis of the mid-1990s and the consequent rapid downsizing. In a first retrenchment, posts established under the regular and operational budgets fell from 1,082 in the 1994-1995 biennium to 842 in 1997, a decrease of 22 per cent.[93] To implement the budget cuts mandated by the Conference for the 1998-1999 biennium, a staff separation programme was promulgated in January 1998, following staff-management consultations. Although this programme was described as "voluntary", the Inspectors understand that staff had to justify their continuation with the Organization before a committee. Approval for the staff separation programme was contained in Conference decision GC.7/Dec.17, but this decision was not backed by cash resources. It was thus necessary for the Director-General to exercise strict controls on expenditures to secure cash resources, as well as use other surplus cash balances, to finance the immediate costs of the separations. In early 1998, 99 staff were separated at a cost of US$ 10.1 million.[94]

87. The staff separation programme could not be fully implemented in the absence of sufficient funding, and in order to achieve the required budgetary reduction, a staff redeployment programme was also introduced. Staff members on abolished posts or without posts who were not included in the separation programme were redeployed to programmes having vacant posts, or assigned to programmes on vacant posts provisionally borrowed from other programmes. In so doing, the Director-General acknowledged the "possible negative impact on the programmes affected by such assignments" and the need for further review.[95] It was recognized that further redeployment would be required in the context of the Business Plan, and to that end an inventory of the skills required for the implementation of the new programmatic priorities would be established.[96]

88. The inefficiencies arising from the mismatch of skills and programme requirements in staff subject to redeployment was only one aspect of the negative impact of downsizing the Secretariat. It was recognized in the PBs 1998-1999 that the "streamlining of the organizational structure [would] place a greater demand on the remaining staff of the Organization", and this outcome was confirmed to the Inspectors in the interviews for this report.[97] Apart from assuming a greater workload, the staff has been has been faced with reduced promotion opportunities attendant on the downsizing, continuing uncertainty, and lack of security, all serving to lower morale.

89. As the Director-General has continued to pursue his goals for the Organization in his second term, so the Secretariat has been confronted with further restructuring and redeployment, including the streamlining of the senior levels of management. In the latter case, the number of staff at the D-2/L-7 level is being reduced by "separation through natural attrition, reassignment to field offices, and reappointments", the latter two options presumably entailing demotion.[98] Movement from a D-2 post in Headquarters to a D-1/L-6 post in the field would hardly seem optimal from the standpoint of either programme requirements or individual staff members. In the next stage, recruitment in open competition is envisaged for D-1 branch director

[91] Examples cited included unemployment insurance which was an entitlement in IAEA but not in UNIDO, and language training which was free to UNOV staff while UNIDO staff had to pay 50 per cent.
[92] General Assembly resolution 40/180, 17 December 1985.
[93] IDB/S.6/2-PBC/AS.2/2, 4 December 1995, table 5; GC.7/21, 21 November 1997, table 5.
[94] IDB.19/9, 28 April 1998, paras. 2-6.
[95] Ibid., paras. 7-9.
[96] UNIDO/DGB(M).80, 12 February 1998, para. 5.
[97] GC.7/21, 21 November 1997, para. 41.
[98] UNIDO/DGB(M).91, 14 November 2002, para. 5.

Table 2: Vacancy rates in the UNIDO Secretariat, year-end
(Vacancies as per cent of established posts)

	1998	1999	2000	2001
TOTAL				
Regular budget	3.4	9.0	7.6	9.6
Operational budget	18.5	29.7	36.2	26.6
Total	6.9	13.8	14.3	13.6
Headquarters[a]				
Regular budget	2.7	6.4	1.7	6.4
Operational budget	17.5	28.0	37.6	24.2
Total	6.4	11.9	10.8	11.0
Field				
Regular budget	11.9	23.7	24.6	21.7
Operational budget	22.2	36.1	31.7	34.1
Total	15.8	28.4	27.3	26.4
Buildings management (BMS)				
Total (regular budget)	1.4	10.3	17.3	12.7

Source: Data for established posts and number of vacancies provided by UNIDO Secretariat.
Note: [a] Excluding field and BMS; including New York and Geneva offices.

posts, as was done in 2002 for the D-2 Managing Director posts. In addition, since the average age of the professional staff is relatively high – 54 according to the Secretariat – there is an active programme to encourage early retirement and hence reduce the number of posts at the P-5 and D-1 levels. By replacing these posts with new posts at the P-3 and P-4 levels, it is hoped to rejuvenate the Secretariat. While these changes may be justified in terms of the search for managerial and technical excellence, as well as the need to rebalance the top-heavy structure of the Secretariat, staff morale is unlikely to improve while such changes are in progress. The negative effects might be contained, however, by consultations between the top level of the Secretariat and the staff prior to changes being announced, thus increasing transparency in the process.

90. The Inspectors are concerned that in spite of the sharp fall in established posts in the context of the recent downsizing, vacancy rates in the Secretariat remain persistently high, excessively so in some cases, as is shown in table 2 above. While the situation is less serious for posts established under the regular budget at Headquarters, rates in excess of 20 per cent for regular budget posts in the field are clearly detrimental to the delivery of the Organization's regional programmes. More striking still are the very high vacancy rates for posts established under the operational budget, both at Headquarters and in the field, a reflection of the uncertainty of extrabudgetary funding for technical cooperation assistance. UNIDO also faces supply-side problems in filling Professional posts in the field with the required technical expertise, particularly in the field of agro-industries where there is strong competition from the private sector.

91. In a small organization such as UNIDO, a high vacancy rate is likely to be sharply felt, both in terms of delays in programme delivery and the additional workload on the staff. The Director-General does not, however, report on post vacancy rates in his annual personnel report to the Board or in the personnel-related information in the annual report of the Organization. The Inspectors understand that a post vacancy analysis is conducted three times a year by the Director-General and the head of the Human Resources Management (HRM) Branch to determine the needs for Professional recruitment, and a targeted recruitment drive is then undertaken. The Inspectors believe that in the context of this exercise, strenuous efforts should be made to reduce the number of vacancies, and particularly those in the field.

B. Human resources management framework

92. Following the implementation of the staff separation and redeployment programmes, it was announced in May 1998 that a new system of personnel management comprising staff career development would be introduced, and the framework for this was set out in an administrative

Table 3: Contractual arrangements

<table>
<tr><th>Staff rules</th><th>Type of appointment</th><th>Initial duration</th><th>Extension</th><th>Conditions</th></tr>
<tr><td rowspan="2">100 series</td><td>Fixed term</td><td>3 years; first 12 months probationary</td><td>3 year extensions</td><td>Extensions subject to satisfactory performance and budgetary coverage.</td></tr>
<tr><td>Permanent</td><td>5 years</td><td>Review every 5 years</td><td>May be granted after 5 years continuous service on fixed-term contract.</td></tr>
<tr><td rowspan="2">200 series</td><td>Intermediate term</td><td>1 year, but not more than 5 years</td><td>Extensions up to 5 years of continuous service</td><td rowspan="2">Duration and extension determined on an individual basis depending on requirements.
Intermediate- converted to long-term appointment if total service exceeds 5 years and further extension of at least 1 year is granted.</td></tr>
<tr><td>Long term</td><td>More than 5 years</td><td>1 year initially</td></tr>
<tr><td rowspan="3">300 series</td><td>Appointment of limited duration</td><td>Up to 2 years</td><td>Up to maximum of 4 years continuous service</td><td>After 4 years continuous service, 1 year break in service required before eligible for new appointment.</td></tr>
<tr><td>Monthly short term</td><td>6 months maximum</td><td></td><td rowspan="2">Granted in exceptional and specific circumstances, e.g., emergency or peak workload situations; need for specific skills etc.</td></tr>
<tr><td>Daily short term</td><td>60 days maximum</td><td></td></tr>
</table>

Source: DG/AI/No. 14, 5 June 2001

instruction of November 1998 and subsequent annexes issued in 1999.[99] However, in June 2001, a new administrative instruction was issued “to incorporate the staff career development system previously promulgated into a comprehensive human resource management framework” which was “in the spirit of the reform measures being implemented by the Secretary-General of the United Nations”.[100] The human resources management framework, which was developed in consultation with the staff representative and presented to the Joint Advisory Committee (JAC), is being introduced in three phases.

93. In the first phase, dealing with recruitment and contractual status, recruitment procedures have been simplified and speeded up, although, as noted in chapter II above, the Director-General must first approve the issuance of nearly all vacancy announcements. Contractual arrangements have been adapted “to better serve the operational needs of UNIDO in recognizing core activities, continuing work programmes and projects, tasks of limited duration and seasonal fluctuations in short-term requirements”.[101] As set out in the administrative instruction of June 2001, contractual arrangements are shown in table 3 above.

94. UNIDO core staff in all categories continues to be appointed on fixed-term contracts, with extensions “subject to satisfactory performance and budgetary coverage”, and the possibility of being granted permanent appointments, subject to certain conditions.[102] It has been emphasized to the Inspectors that fixed-term contracts are being consistently granted for periods of three years, as well as extensions thereof, and that this constitutes an important enhancement of staff security and has served to improve staff morale. The administrative instruction does not outline the policy or elaborate procedures for the rotation of core staff between Headquarters and the field. In the context of decentralization, it had been envisaged that the number of field posts to be established would permit a rotation of about 25 per cent of staff during a two-

[99] DG/AI/No. 10, 6 November 1998 and annexes issued in 1999.
[100] DG/AI/No. 14, 5 June 2001, para. 1.
[101] Ibid., para. 17.
[102] Ibid., paras. 21-22.

to-four-year cycle.[103] The Secretariat has assured the Inspectors that PCF, in consultation with HRM Branch and staff representatives, is currently developing a system of rotation of core Professional staff between Headquarters and the field.

95. The main changes in contractual status in the context of the HRM framework relate to short-term appointments under the 300 series of the staff rules, and specifically to the introduction of appointments of limited duration (ALD). These ALDs, which may be granted to any category of the staff at Headquarters or in the field, are for specific functions that are limited in scope and time. For example, staff were recruited on ALDs to work on the implementation of the Agresso financial management system. ALDs are described as "non-career appointments that do not carry any expectancy of automatic conversion to any other type of appointment and should not be used at the expense of the core staff of the Organization".[104] According to information provided by the Secretariat, it is envisaged that eventually some 10 per cent of Professional appointments will be on ALDs.

96. Appointments of limited duration, a relatively new kind of contractual arrangement in the organizations of the United Nations system, were first introduced in 1994 by the United Nations on a pilot basis, followed by UNDP in 1998. A working group of the International Civil Service Commission (ICSC) undertook an in-depth review of these pilot schemes in 1997 and formulated a set of principles and guidelines, as well as a basis for possible remuneration structures.[105] In the discussion in ICSC of the report of the working group, "[s]ome concern was … expressed as to whether appointments of limited duration might replace those of current contractual arrangements over time and thus impinge on the "core" workforce …".[106] The Inspectors share these concerns in respect of the introduction of ALDs in UNIDO. They note that UNDP employed 16 per cent of its Professional staff on ALD contracts in 2001, which tends to support the contention that this type of appointment might be used increasingly over time at the expense of the core international civil service.

97. The second phase of the HRM framework, directed at career growth, was being implemented from mid-2002, and included the development of individual and managerial competencies and the introduction of a new competency-based staff performance appraisal system. In addition, a system of performance awards was being introduced to recognize "outstanding contributions" and provide incentives to professional excellence.[107] While it is too early to assess the impact of these changes, the move to competency-based human resources management is in line with similar initiatives in other organizations of the United Nations system and is currently considered as best practice. However, the Inspectors have certain reservations about performance awards, particularly in respect of transparency and fairness, as well as the potential disincentive effects, and they believe that safeguard mechanisms are necessary. The recent establishment of a Performance Review Committee, which includes staff members nominated by the Staff Council, to review recommendations for merit promotions, as well as plans to set up similar committees for other types of awards, address these concerns to some extent.[108] Nevertheless, it is essential that the new systems of performance appraisal and of performance recognition and merit are closely monitored and subject to transparent reporting, not just in the implementation phase, but on a regular basis.

98. As noted in paragraph 19 above, for service in technical cooperation activities at field duty stations, as well as for special technical assignments at UNIDO Headquarters, appointments are being made under the 200 series of the staff rules (L posts). The Inspectors have some concerns, however, about the use of L posts at Headquarters, particularly for appointments in the Office of the Director-General. Appointments to L posts are not in general subject to a competitive recruitment process. Hence, in cases where posts have been created under the 100 series of the staff rules to replace existing L posts, the incumbents of these posts are perceived to have an advantage in the competition that follows. Such practices have raised concerns among the staff as promotion opportunities are already scarce as a result of the downsizing. The Inspectors were informed that these practices have now ceased. They would therefore recommend that strict criteria be applied in future to the creation of L posts at Headquarters for special technical assignments, and that those posts still existing be critically reviewed and discontinued in cases of non-conformity with the criteria.

C. Composition of the Secretariat

99. Article 11, paragraph 5, of the UNIDO Constitution states, that "[d]ue regard shall be paid to the importance of recruiting staff on a wide and equitable geographical basis". At its twenty-first session, the Board, in decision IDB.21/Dec. 11, asked the Director-General to take these "constitutional stipulations" fully into consideration

[103] IDB.21/16, 10 May 1999, para. 21 (f).
[104] DG/AI/No. 14, op. cit., para. 26.
[105] "Report of the International Civil Service Commission for the year 1997", A/52/30, paras. 220-222 and annex XX.
[106] Ibid., para. 237.
[107] DG/AI/No. 15, 26 July 2002; UNIDO/DGB(M).91, 14 November 2002, para. 8; DG/AI/ No. 16, 1 January 2003.
[108] UNIDO/ADM/HRM/INF.22, 13 May 2003.

in the recruitment of staff, particularly for Professional posts.[109] In response, the Director-General presented an analysis of the geographical distribution of the Professional staff on the basis of four country groupings: Africa and Asia (Group A); Western Europe, Japan and New Zealand (Group B); Latin America and the Caribbean (Group C); and Eastern Europe (Group D). As of 29 February 2000, the geographical distribution for Groups A-D was 24.8, 43.6, 10.6 and 14.2 per cent respectively; in addition, 6.9 per cent was from non-member States (Australia, Canada and the United States).[110]

100. In his introductory presentation to the twenty-fifth session of the Board in May 2002, the Director-General pointed to improvements in the geographical distribution of appointments in the period May 2000 to May 2001. However, his personnel reports to the Board in 2001 and 2002 did not include data on geographical distribution so it is not possible to make comparisons with the situation presented for 2000, which makes it difficult to review progress. Furthermore, the selected personnel statistics presented in an appendix to the UNIDO annual report do not include data on the geographical distribution of the staff. In view of decision IDB.21/Dec.11, the Inspectors believe that comparable information on the geographical distribution of the Professional staff should be included in the Director-General's annual personnel report to the Board, as well as in the UNIDO annual report.

101. Decision IDB.21/Dec. 11 also made reference to the low representation of women in the Secretariat at the decision-making levels, and the assurances of the Director-General that corrective measures were being taken. These measures have included a review of serving women Professionals as a first step in filling vacancies, attempts to include sufficient female candidates on the short list for each vacancy, and formal justification required of managers for non-selection of female candidates. The Director-General has pointed out, however, that the problem has been compounded by the modest number of applications received from women, particularly for vacancies in technical posts.[111] The Inspectors were informed that targeted recruitment drives were now being undertaken by the Secretariat in an effort to attract more female candidates.

102. Gender targets for Professional posts subject to geographical distribution were set by the Organization in 1990 as follows: overall female representation 25 per cent by 1993 and 30 per cent by 1995; P-5 and above, 15 per cent by 1995.[112] In the period 1999-2002, the Organization has come close to these targets, averaging 13.5 per cent for P-5 and above, and 28 per cent for overall representation.[113] These figures are close enough to consider the setting of new targets to achieve gender parity in the Secretariat, as called for by General Assembly resolution 52/96 of December 1997.

D. Staff-management relations

103. The Director-General included the joint staff-management bodies in his review and rationalization of committees undertaken in 1998. Among the changes proposed, the three appointment and promotion bodies were to be merged into one committee, the Panel on Discrimination and Other Grievances was to be abolished, and the future of the Joint Disciplinary Committee was to be determined following a review of the disciplinary system which was to take place in consultation with the Staff Council.[114] The Inspectors understand that some of these proposals have been implemented, while others are still the subject of review and negotiations between management and staff representatives.

104. An informal grievance procedure was instituted in 1998 to replace the abolished Panel on Discrimination and Other Grievances, and five staff members were appointed to act as mediators in April 1999.[115] In 2002, the HRM Branch conducted a review of the new system, following a request by the Staff Council, and found that the staff was not well informed of the informal grievance procedure and that it was seldom used, the staff preferring instead to approach the Staff Council when a grievance arose. HRM Branch has put forward recommendations to strengthen the informal grievance procedure, but it appears that a consensus has not yet been reached on the matter. Similarly, the review of the disciplinary system is still in progress.

[109] GC.8/4, 8 July 1999, p. 13.
[110] IDB.22/5, 14 March 2000, table 1.
[111] Ibid., paras. 18-19 and 21.

[112] IDB.21/16, 10 May 1999, footnote 1; UNIDO Intranet.
[113] IDB.22/2-PBC.16/2, 24 March 2000, appendix L, table 2; IDB.24/2-PBC.17/2, 23 March 2001, appendix L, table 2; IDB.25/2-PBC.18/2, 27 February 2002, appendix L, table 2; PBC.19/2, April 2003, appendix L, table 5.
[114] DG/AI No. 5, 12 March 1998, annex II.
[115] UNIDO/FOA/SDM/INF.4, 7 August 1998; UNIDO/FOA/-HRM/INF.1, 1 April 1999.

VI. FIELD REPRESENTATION

105. Field offices are the core of UNIDO field representation. The terms of reference of the field offices identify two main categories – the Country Office and the Sub-regional Office – and provide for a UNIDO National Focal Point in selected countries where it is not feasible to locate an office.[116] As of 31 December 2001, UNIDO maintained 28 offices in the field, nine of which were designated as regional offices, and there were four focal points. The Organization also has a network of Investment and Technology Promotion Offices (ITPO) and Investment Promotion Units (IPU), as well as two Liaison Offices.

Table 4: Representation in field offices and other entities

	Africa	**Arab**	**Asia and the Pacific**	**Europe**	**Latin America and the Caribbean**
Regional Office[a]	Ethiopia Nigeria Zimbabwe	Egypt Lebanon	India Thailand		Colombia Uruguay
Country Office	Cameroon Côte d'Ivoire Ghana Guinea Kenya Madagascar Senegal Tanzania, U.Rep.of	Algeria Sudan Tunisia	China Indonesia Iran, Islamic Rep.of Pakistan Philippines Viet Nam		Bolivia Mexico
Other field presence[b]	Burkina Faso Eritrea Mali Mozambique		Sri Lanka	Turkey Ukraine	Argentina Brazil Cuba
ITPO[c]		Bahrain	China (Beijing and Shanghai) Japan Korea, Rep.of	Belgium[d] France Greece Italy (Milan and Bologna) Poland Russian Fed.[e] Slovakia United Kingdom	Brazil
IPU[f]	Uganda	Egypt Jordan Morocco Tunisia			
Liaison Office	Geneva, New York				

Source: IDB.25/2-PBC.18/2, 27 February 2002, appendix K; IDB.25/4, 19 March 2002, para. 4.
Notes: [a] Regional Offices also function as Country Offices.
[b] National Director, National Focal Point, Associate Expert, Junior Professional Officer, etc.
[c] Investment and Technology Promotion Office.
[d] Project of Walloon region based at UNIDO Headquarters.
[e] UNIDO Centre for International Industrial Cooperation, Moscow.
[f] Investment Promotion Unit (not strictly part of field representation).

[116] FOA/AI.1, 14 May 1998. In practice, the term "regional office" has replaced "sub-regional office".

106. ITPOs, which are financed by their host countries, assist developing countries and those with economies in transition to strengthen their capacities to bridge the investment gap and the technology divide. The ITPO network is complemented by IPUs – technical assistance projects that are financed by Italy. The guidelines for the functioning of the ITPOs have recently been updated to more fully reflect their role in technology promotion and transfer.[117] While not underestimating the importance of the ITPO network to UNIDO's overall objectives, the main emphasis of this chapter will be the functioning of UNIDO's country and regional offices.

A. Decentralization: a directive of the Business Plan

107. The decision to decentralize UNIDO's operations was taken by Member States when the Conference endorsed the Business Plan in December 1997. The latter stated that "… an effective decentralization of activities and strengthened field representation [had] to be secured". This would require the redeployment of resources and Professional staff from Headquarters to the field, the appropriate delegation of authority, and the formulation of the key functions and responsibilities of field offices. Furthermore, general activities related to country-level programming at Headquarters would be discontinued. Improved functional and programmatic coordination between UNIDO field representation and that of other United Nations organizations was also called for in the Business Plan. It was envisaged that UNIDO country offices would be integrated in a unified United Nations representation whenever feasible and cost effective.

108. Two elements were identified in the Business Plan as important determinants of the location of individual field offices: contributions from host countries through cost-sharing or other arrangements; and the particular situation of the least developed countries. Sub-regional offices would be established wherever functionally justified. After consultations with Member States, the Director-General announced, in 1998, the locations for the establishment of 30 country offices in the various regions, and, in 1999, the five country offices initially earmarked for conversion to regional offices.[118] The regional offices were to function as technical centres providing support and advice to the countries covered; they were also to function as country offices for the countries in which they were located.

109. In the case of the regional offices, the locations were to be selected on the basis of two sets of specified criteria. The qualitative criteria comprised: geographical position, logistics and communication; expansion potential; status of payment of assessed contribution; and host country contribution to UNIDO programme funds such as the Industrial Development Fund (IDF). The quantitative criteria comprised: pool of local expertise; concentration of regional headquarters of development institutions; participation in multi-country programmes and projects; and host country support to the UNIDO country office.[119] The PBs for 1998-1999 and 2000-2001 assumed that the host countries would share some of the running costs of these offices; hence it would be necessary to conclude cost-sharing arrangements before the proposed regional offices could become operational.

B. Mandate and functions of UNIDO field offices

Country offices

110. A UNIDO country office normally covers the country of its location, but may also function as the country office for one or more neighbouring countries. The country office in Kenya, for example, also covers Eritrea and Uganda. By its terms of reference, the main responsibility of a country office is "to develop, coordinate and actively support the overall cooperation between UNIDO and the Government, the academic community, the private sector and the civil society of the country/countries covered by it for promoting industrialization".[120] The country office is required to maintain appropriate contacts and dialogue, continuously assess requirements, and feed information back to Headquarters for input in the formulation of technical assistance programmes and projects, as well as provide advisory and information services on aspects of industrialization. The country office thus has a strong representational and advocacy role to play.

111. According to the terms of reference, "[w]ithin the overall framework of each country's needs and development strategy, and of the United Nations System's country programming activities such as the Country Strategy Notes (CSN), the Common Country Assessments (CCA) and the United Nations Development Assistance Framework (UNDAF), the [country office] will assume the leading role and coordinating function in the identification and development of UNIDO's programme and projects for the country".[121] Programming activities would include the preparation of a country support strategy, systematic needs assessment and screening of all requests for UNIDO assistance, and coordination of

[117] IDB.25/4, 19 March 2002, para. 6.
[118] DG/AI/No. 7, 14 May 1998; DG/AI/No. 12, 8 October 1999.
[119] IDB.21/19, 6 May 1999, para. 7.
[120] FOA/AI.1, op. cit., para. 3.
[121] Ibid., para. 7.

the preparation of project documents. The country office would also be expected to mobilize financial resources at the country level from national, bilateral and multilateral sources.

112. In respect of implementation and monitoring, "[p]reparatory assistance projects normally shall be designed, formulated and implemented at the field level", and the country office may be assigned responsibility for implementing other projects if the UR so requests.[122] More generally, the country office is required to monitor and provide all necessary local support to the implementation of UNIDO's technical cooperation projects. It also prepares the biennial country programme of cooperation for sustainable development which forms the basis for a joint Government/UNIDO evaluation.

113. The country office participates in the United Nations Resident Coordinator system and hence in the country-level activities coordinated by the United Nations. For the purposes of administrative coordination, it reports to the relevant Regional Bureau at Headquarters, and the latter provides strategic and policy guidance and coordination for all the country offices in the region. On substantive technical matters, however, the country office has direct contact and coordination with the relevant Headquarters technical branches, while keeping the Regional Bureau informed. This plurality of links to Headquarters has the potential to blur the reporting lines and hence the issues of responsibility and accountability.

Regional offices

114. As noted above, the regional office is required to provide technical support and advice in the priority areas shared by the countries in its area of operation. By its terms of reference, it should analyse industrial development issues with a sub-regional dimension and suggest appropriate measures for technical assistance; interact with multilateral development and financing institutions operating in the sub-region; mobilize funds; negotiate with Member States; and undertake monitoring and coordinating functions.[123] In addition, the regional office acts as a country office for its host country, and may function as a country office in respect of other countries in the region. The regional office is headed by a UNIDO Representative who may also be designated as the Director of the Regional Industrial Development Centre (RIDC) where the latter exists. It was envisaged that each regional office would be allocated two industrial development officer posts (P-4/P-3), requiring specific technical expertise in UNIDO's priority areas – agro-industries, SME/private sector development, environment and energy efficiency etc.[124]

C. Decentralization: a stalled initiative

115. Considerable efforts were expended by the Secretariat in 1999/2000 to implement decentralization, as called for in the Business Plan, including the redeployment of Professional staff and other resources. Reporting to the Board in November 2000, the Director-General noted that the field programme budget and field office posts had been increased by 28 and 43 per cent respectively in 2000-2001 compared with the previous biennium, and of the 24 UNIDO Professional staff in the field, 22 had been redeployed from Headquarters. But he also stated that it had not been possible at that stage to fully realize the objective of effective decentralization through the transfer to the field of substantive responsibility for programme formulation, development and implementation.[125] The country offices were able to perform some activities relating to country-level programming and were involved "in a general way" with project implementation, but their activities were constrained by the lack of financial and human resources. Similarly, the regional offices were not yet fully operational as regional technical centres as, for financial reasons, the necessary technical staff had not been deployed.[126]

116. A strategy paper on enhancing the effectiveness of field representation was prepared by the Secretariat and presented to the PBC in September 2000, and extensive consultations followed with Member States. Three options were considered: consolidating and stabilizing the existing field structure; effective decentralization; and a compromise option between the two. Even for the first of these options, the estimated annual cost was 24 per cent higher than the amount budgeted for 2000; for the second and third options the excess was 55 and 36 per cent respectively.[127] Reporting on the consultations to the Board in November 2000, the Director-General noted the "prevailing view was that, while the existing field structure should be consolidated and stabilized over time, UNIDO should at the same time take up further strengthening of a few regional offices …", and announced his intention to pursue this option.[128]

117. The Board, for its part, requested an in-depth analysis of the current situation of the field offices and the approach to decentralization, to facilitate further consultations with Member States.[129] In

[122] Ibid., para. 11.
[123] Ibid., para. 16.
[124] DG/AI/No. 12, 8 October 1999, annex II.
[125] IDB.23/10, 25 September 2000, paras. 6-7 and 9.
[126] IDB.23/18, 1 November 2000, para. 2.
[127] Ibid., annex.
[128] Ibid., paras. 11-13 and 15.
[129] IDB.23/Dec.8, 16 November 2000.

response, a survey was undertaken by the Secretariat with information gathered from a variety of sources including UNIDO Representatives, team leaders of integrated programmes, project managers, Resident Coordinators, and government and local counterparts.

118. The survey showed that the staff of field offices spent a little under half of their time on representational and managerial functions, and the rest on activities related to programming and the implementation of technical cooperation, including funds mobilization.[130] However, the role of the field offices in technical cooperation activities remained supportive rather then proactive, the bulk of the substantive activities, both for integrated programmes and stand-alone projects, being performed by the team members of the technical branches at Headquarters, supported by consultants and experts. Furthermore, with such limited staff and financial resources, the field offices could not fully participate in the United Nations country team and Resident Coordinator system. Neither could they play an effective role in the coordinated local development framework, which constrained their ability to mobilize funds locally from the various development financing institutions.[131]

119. In a progress report to the Board in June 2001, the Director-General noted that Member States had reaffirmed the need to proceed further with decentralization, but had "expressed their preference, for the time being, for consolidation of the existing field structure while eliminating organizational inefficiencies", which was duly reflected in the PBs 2002-2003.[132] As at 1 March 2002, most of UNIDO's country offices continued to be staffed by only a UNIDO Representative at the L-5/L-6 level and two GS staff, usually a secretary and a driver, while some offices lacked even a UR.[133] The situation in most of the regional offices was little better, the main exception being Nigeria which had been designated as a RIDC in 2000 and strengthened with the addition of two technical posts (P-3, P-4).

D. Towards a more rational field structure

120. The Inspectors heard during the interviews for this report of the need to retain a critical mass of technical expertise at Headquarters. Given the small size of the Organization, this implies that it would not be possible to create technical posts in the field in sufficient numbers to bring about effective decentralization. It can be argued, however, that there is a greater need for a core of technical expertise in each of the field offices than for a critical mass at Headquarters, and that the reversal of the current imbalance is probably the only way that effective decentralization can be achieved. The Inspectors are not convinced by the critical mass argument which favours retaining the status quo, believing instead that a large majority of the Organization's technical posts should be field-based to facilitate the decentralization of the operative functions. Small technical units retained at Headquarters would focus on the normative, global forum functions.

121. As noted above, one way forward would be to strengthen the regional offices, drawing on the experience of the RIDC in Nigeria, a well-regarded pilot case. While recognizing the progress made by this office and, notably, the considerable achievements of its Director/UR, the Inspectors are concerned that it faces major resource constraints in fulfilling its mandate, particularly in respect of sub-regional activities. An inadequate number of posts is one aspect of the problem, but recruiting the required technical expertise has also proved to be difficult, particularly in the field of agro-industries where there is strong competition from the private sector. Not only should the regional offices be strengthened with the transfer of technical posts from Headquarters, but the field posts created should include a sufficient number at the P-4 and P-5 levels to attract and retain qualified and experienced technical personnel. Furthermore, the integrated programming approach would require that each regional office has the technical expertise to cover each of UNIDO's eight service modules, although the exact profile would also depend on specific regional needs.

122. As for "consolidating the existing field structure while eliminating organizational inefficiencies", there are clear cost inefficiencies associated with single country offices that are effectively staffed by one person, and the impact of such offices is bound to be limited. For geopolitical reasons, it is probably unrealistic to contemplate a field presence based solely on regional offices, but the Organization should assess the effectiveness of the country offices and close those which cannot be justified on the basis of agreed performance criteria.

123. At Headquarters, serious consideration should also be given to scaling back the regional bureaux and redeploying the posts released to the field. Many of the functions of the regional bureaux, as set out in the PBs, closely overlap those of other organizational entities, notably in the areas of programme formulation, monitoring, funds mobilization and liaison with external bodies. In the PBs 2002-2003, a total of 33 posts was allocated for the regional bureaux programme (18 Professional and 15 GS) and total net resources of almost €8.5 million, which is

[130] IDB.24/CRP.5, 14 June 2001, para. 15.
[131] Ibid., para. 30.
[132] IDB.24/15, 24 April 2001, para. 5.
[133] UNIDO/DGB/(O).86/Add.9, 15 February 2002, annex III.

about one third of the total net resources allocated to the field offices programme. In comparison with ITU – a similarly sized specialized agency with a field presence – the staffing of the regional bureaux would appear to be excessive.[134] The Inspectors are of the view that UNIDO should adopt a similar model to ITU, replacing the regional bureaux with much smaller units performing an internal liaison function.

124. In the PBs 2002-2003 it is stated that "[f]ull implementation of a future decentralization would entail managerial and administrative restructuring of the regional programmes, both Regional Bureaux and field offices …".[135] Accordingly, additional administrative posts would need to be created in the field to support the expanded regional offices, and field systems and infrastructure upgraded. A review of the existing delegations of authority would also be required with the objective of ensuring a genuine decentralization of the decision-making process in the Organization. Finally, it would be necessary to establish personnel policies in which field service was the central focus of career development, putting in place a transparent system of rotation between Headquarters and the field, and between field offices, and applying it consistently.

[134]The ITU organizational chart for 2002 shows five regional units at Headquarters each headed at the P-5 level; in total, there were seven established Professional posts and nine General Service posts.

[135]IDB.24/3-PBC.17/3, 16 March 2001, para. E.15.

VII. INTERNAL AND EXTERNAL OVERSIGHT

A. Internal oversight

125. Internal audit is a requirement of UNIDO Financial Rule 109.39, which provides for a unit to conduct independent audits by reviewing, evaluating and reporting on the soundness, adequacy and application of systems, procedures and related internal controls. The scope of the internal audit function goes beyond financial compliance with legislative instruments to include appraisal of operational efficiency, economy in the use of resources, and the effectiveness of programme delivery financed from all sources. This wide-ranging mandate, which at the time of preparing this report was being undertaken by IOG, requires close coordination and collaboration with the evaluation function to avoid the risk of both overlap and gaps in coverage.

126. Indeed, the complementarities of the various internal oversight functions – audit, inspection, investigation, monitoring and evaluation – underlie the arguments for a consolidated internal oversight service. However, UNIDO's attempt in 1999 to bring together most of its internal oversight functions in one service was only short-lived. While there may be divergent opinions in the Secretariat as to the reasons why, the Inspectors are of the view that the frequent reorganization in recent years of internal oversight services, as well as the present fragmentation and inadequate resources, have been detrimental to their efficient operation. Similarly, the External Auditor observed in his report for the 2000-2001 biennium that the IOG was "not in a position to perform intensive as well as extensive systematic reviews as required".[136] Member States have also been concerned about the internal oversight and control functions of the Organization, and at its eighteenth session, the PBC recommended that these be strengthened, inter alia, "through an improved staffing profile with as much independence as practicable".[137]

127. In response to these concerns, the Director-General announced plans to establish an Office of Comptroller General to "help to improve the performance and assure the accountability of the Organization".[138] The competitive recruitment process for the post of Comptroller General was in progress at the time of writing. The recently issued proposals for the PBs 2004-2005 set out the responsibilities of the Office as follows: internal oversight; programme/projects evaluation; provision of advice on financial and programme issues; and programme policy monitoring.[139] The Inspectors fully support the decision to consolidate these functions in one Office, believing that this will, inter alia, enhance independence and visibility, offer economies of scale, increase compliance, and focus accountability, as had been argued in an earlier JIU report.[140]

128. The establishment of the Office of Comptroller General provides an opportunity for the Organization to improve certain internal oversight practices, as well as introduce others which have hitherto been lacking. It would thus be timely to issue a formal instrument, similar to the Charter of the Office of Inspector-General in the Food and Agriculture Organization of the United Nations, to govern the Office of Comptroller General, setting out the terms of reference, as well as modalities to ensure operational independence and effective reporting mechanisms.

129. A primary requirement would be to safeguard the special position that the Comptroller General occupies in the Organization by providing that appointment to the post – or indeed termination of the contract of the incumbent – be dependent on prior consultations with the Board. Similarly, the Comptroller General should be allowed to submit specific internal oversight reports to the governing body if he deems it necessary, with the condition that any comments of the Director-General on the report in question be also submitted. Both provisions would offer protection to the Office of Comptroller General and would strengthen internal oversight in UNIDO. They would also be in line with current best practice in large specialized agencies such as FAO and WHO.

130. While Financial Rule 109.39 states that the internal audit unit shall have unrestricted access to all records, documents and property of the Organization, as well as the full cooperation of the staff, it is less specific on the issue of reporting, beyond stating that the unit shall report to the Director-General. A charter for the Office of Comptroller General would instruct that its reports be sent to the Director-General with a copy to the External Auditor. These reports should contain recommendations for corrective action by relevant management officials. At the request of the Comptroller General, any such report should be submitted to the Industrial Development Board, together with the Director-General's comments thereon. There should also be provision for annual summary reporting by the

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136 IDB.26/2-PBC.18/3, 3 June 2002, para. 129.

137 IDB.26/13, 10 October 2002, para. 12 (f) (iii).

138 UNIDO/DGB(M).91, 14 November 2002, para. 15.

139 IDB.27/3-PBC.19/3, 20 March 2003, para. B.14.

140 "Accountability and oversight in the United Nations Secretariat", JIU/REP/93/5 (A/48/420, 12 October 1993), paras. 153-164.

Comptroller General to the Director-General, with a copy to the External Auditor. In line with a previous recommendation of the JIU, the annual summary report should be presented by the Director-General to the Board, together with his comments if he deems necessary.[141] A charter would also address the need for systematic follow-up of the implementation of the recommendations of the internal audit. In this regard, the Inspectors were informed that the IOG has recently introduced an audit management tool to streamline its activities and the follow-up on oversight recommendations.

B. External oversight

131. External oversight is undertaken by the External Auditor, the Joint Inspection Unit and the legislative bodies of the Organization. Under Article XI of UNIDO's financial regulations, the External Auditor is required to make observations with respect to the economy, efficiency and effectiveness of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization (Financial Regulation 11.4). In addition, the governing bodies of UNIDO may request the External Auditor to perform certain specific examinations and issue separate reports on the results (Financial Regulation 11.6). The External Auditor, "who shall be Auditor-General [or equivalent] of a Member State, shall be appointed in the manner and for the period decided by the Conference" (Financial Regulation 11.1). The Auditor General of South Africa was appointed to this function as of 1 July 2002 for a period of two years, taking over from the Federal Court of Audit of Germany which had conducted the audit since mid-1994 in four consecutive two-year terms.[142]

132. As has been pointed out in the previous reports in this series on WHO and FAO, the financial regulations of most organizations in the United Nations system do not specify terms of office or limits on the tenure of appointment of the External Auditor. However, the General Assembly of the United Nations decided in 2001 to limit the term of office of the Board of Auditors to a non-consecutive term of six years starting on 1 July 2002.[143] Similarly, the World Food Programme (WFP) appoints its External Auditor for a four-year period, renewable once.[144] The Inspectors are in agreement with the view that term limits offer a balance between the need for continuity and the need rotation as a prerequisite to safeguard independence.

133. The Joint Inspection Unit is by statute a subsidiary body of the legislative organs of UNIDO. At its twenty-fourth session, the Board endorsed the establishment of a pilot scheme of follow-up to the approved recommendations of the JIU through the policy-making organs.[145] Under this follow-up scheme, JIU reports deemed relevant according to specific criteria will be considered by the Board, usually at one session per year, and the Secretariat document submitting JIU reports to the Board will be more action-oriented. Further, the Director-General will submit regular status reports to the Board concerning the measures taken on the approved recommendations, including recommendations addressed to and accepted by the Director-General. The pilot scheme is subject to review and adjustment in light of experience in its actual use.

134. The Inspectors had the opportunity to observe at first hand the operation of the JIU follow-up system at the twenty-fifth session of the Board when three of the Unit's reports were considered. It appeared that many representatives of Member States expected the Secretariat to submit specific proposals on what action should be taken on JIU recommendations and how they should be implemented.

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[141] "More coherence for enhanced oversight in the United Nations system", JIU/REP/98/2 (A/53/171, 9 July 1998), Recommendation 2.
[142] IDB.21/6-PBC.15/6, 25 February 1999, para.1; IDB.24/7-PBC.17/7, 13 March 2001, para. 1.
[143] General Assembly resolution 55/248, 12 April 2001.
[144] WFP Financial Regulation 14.2.
[145] IDB.24/18, 27 April 2001; IDB.24/Dec.11, 22 June 2001.

Annex I

Single currency system of assessment

At its eighth session in December 1999, the Conference adopted a single currency system of assessment based on the euro for contributions to the regular budget, to be implemented from the 2002-2003 biennium, and replacing the split currency system of assessment in which 18 per cent of contributions was assessed in United States dollars and 82 per cent in Austrian schillings. Since some of the Organization's expenditures would still be in United States dollars, the Conference also authorized the establishment of a reserve to protect against exchange rate fluctuations. At its ninth session in December 2001, the Conference approved the exchange rate to be applied for the conversion of assets, liabilities, reserves and fund balances into euros. It also noted that extrabudgetary accounts would remain in United States dollars, if required, but would be converted to euros for the purposes of financial statements. The Secretariat has developed and implemented a new financial system to deal with the dual currency requirements.[146]

Where possible, UNIDO is making payments in euros related to both the regular and operational budgets in order to reduce its dollar requirements. Such payments include those for consultants and experts, suppliers and contractors, most travel advances and settlements, all staff entitlements not promulgated in United States dollars, joint and common services supplied by the other Vienna-based organizations, and some health insurance. However, a number of problems have been encountered in reducing dollar requirements, and these were set out by the Secretariat in a note to the Programme and Budget Committee at its session in September 2002, and to the Board at its session in November 2002.

One difficulty relates to staff salaries. The International Civil Service Commission (ICSC) denominates salary scales of professional and higher level staff in United States dollars for the United Nations common system, and UNIDO is obliged to pay all or part of such salaries in that currency if staff so wish. The Organization is examining the implications of issuing employment contracts to new Professional and higher level staff in euros only, but acknowledges that this could not be applied to existing staff. UNIDO also realises that a system-wide solution involving the issuance of salary scales in euros is unlikely to emerge in the near future since it is the only organization of the United Nations system that has moved to a system of assessment based solely on euros. However, UNIDO has recently raised the issue in various system-wide forums including the Human Resources Directors Network of the Chief Executives Board for Coordination (CEB) and the ICSC.

A similar problem arises with respect to contributions to the United Nations Joint Staff Pension Fund (UNJSPF) for both Professional and General Service staff. As pensionable remuneration is denominated in United States dollars, so too are contributions. UNIDO has explored with the UNJSPF the possibility of paying in euros, but has not considered the conditions offered by the latter as satisfactory. United States dollars will also continue to be the currency of payment of the salaries and entitlements of UNIDO Representatives and staff serving outside the euro zone, and likewise for amounts due to other United Nations organizations.

The reserve that was authorized by the Conference to protect against exchange rate fluctuations was established at the beginning of the 2002-2003 biennium, but with a zero opening balance. However, in the first six months of 2002, the euro depreciated against the United States dollar, so that the Organization faced exchange losses on the regular budget expenditures made in the latter currency. While exchange losses and gains might be expected to balance out over time, certain practical issues concerning exchange rate fluctuations remain to be addressed. Exchange losses have also been made on payments against previously unliquidated obligations, although a solution to this problem has been agreed with the External Auditor. Further challenges arise in respect of technical cooperation since most activities continue to be based in United States dollars, but those funded from within the euro zone must be carried out in euros. The Secretariat is faced with the prospect of having to manage the project cycle in both currencies simultaneously, but expects this to be facilitated by the next release of the Organization's financial software.

Apart from the simplification of the system of assessments, the adoption of a single currency system based on the euro is justified by the Secretariat in terms of enhanced accuracy of accounting, expenditure planning, monitoring, and reporting. In retrospect, the decision to adopt a single currency system was courageous, although some of the problems encountered since its implementation may not have been fully anticipated in all details. However, the shift to a single currency system is significant in the context of funds mobilization, and may facilitate the expected gradual "shift in donor profiles" for technical cooperation activities.

[146]The information in this annex is drawn from "Transition to a single currency system", IDB.26/4-PBC.18/5, 19 June 2002.