

CHECK AGAINST DELIVERY

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION



**Opening Statement
by
Dr. Kandeh Yumkella
Director-General**

**at the
twenty-third session of the
Programme and Budget Committee**

Vienna, 2 May 2007

Mr. Chairman,
Distinguished Delegates,
Ladies and Gentlemen,

I would like to welcome you warmly to the twenty-third session of the Programme and Budget Committee. To begin with, let me express our thanks to the departing Chairperson, H.E. Ambassador Kongit Sinegiorgis, for her committed work in leading the deliberations of the PBC, as well as our thanks to her bureau. Her commitment provided a leadership that was greatly appreciated.

I would also like to take this opportunity to congratulate you, Ambassador Schaller, and the new bureau on your election. I am confident that under your able guidance this session of the PBC will be conducted in an efficient and constructive manner.

As I welcome you to this session of the PBC to discuss a variety of important programmatic and financial issues, I am pleased to be able to inform you at the outset that our Organization has continued to perform well during the past year and faces bright prospects for the future. This is underlined by the growing confidence that you, the Member States, have shown to the Organization. This high level of confidence is reflected in the fact that in 2006, UNIDO recorded the best ever collection rate of its assessed contributions in its history: 94 per cent. This compares with collection rates of 90 per cent in 2005 and 91 per cent in 2004.

Mr. Chairman,
Distinguished Delegates,

Technical cooperation performance and prospects (related to agenda item 9 - Mobilization of financial resources)

Permit me to begin my statement this morning by sharing with you some important new developments in connection with our technical cooperation programmes. As you will recall, in my statement to the thirty-second session of the IDB at the end of last November I formulated a target of \$150-170 million in technical cooperation delivery to be achieved by 2011. At the time, I described this target as ambitious but realistic. I still believe that there is a demand, and indeed need, for our technical cooperation services to grow to this level and beyond, as we help our Member States to generate sustainable economic growth and reduce poverty through increased productive activities and a greater integration into global markets. I am also convinced that the effectiveness and quality of our services will continue to encourage donors to finance these activities.

Today, I am in a position to share with you encouraging signs of a positive momentum being built up in this direction. As reported in the Annual Report of 2006, the volume of our technical cooperation delivery last year increased further from the already high level prevailing in 2005. Furthermore in 2006, UNIDO mobilized resources totaling \$ 122 million for technical cooperation activities. As a result, the portfolio of projects in hand, which stood at \$ 219 million at the beginning of 2006, amounted to more than \$ 227 million at the beginning of 2007. The significance of this number cannot be overstated: we are now looking at the highest available

technical cooperation portfolio since 1991 covering approximately two years of delivery at the current level.

Chart 1

In other words, the volume of funds mobilized for technical cooperation activities has exceeded the level of technical cooperation delivery, resulting in a steady build-up of our portfolio of projects and programmes. This provides a solid foundation for a healthy and sustainable future growth in delivery levels.

I am also pleased to inform you that these encouraging growth prospects cut across all three of our thematic priorities and are based on a diversified spectrum of funding sources ranging from governmental donor contributions to dedicated global funds. Let me share with you some salient features related to each of the three thematic priorities.

We will continue to place a high degree of emphasis on the theme of poverty reduction through productive activities, which will remain the key developmental challenge for the international community and for UNIDO. As the Secretariat has already indicated to Member States in the regional briefings held in advance of this session of the PBC, we plan to use the new integrated programmes currently being formulated as the main vehicle for enhancing our contribution to the poverty reduction objective. In addition, we are strengthening our programmes and projects dealing with sectoral value chains, and have initiated cooperation with FAO and IFAD along these lines. These partnerships with other agencies in the field of value-chain development will also constitute one of UNIDO's key contributions to the formation of thematic clusters that are currently being proposed in the context of the UN coherence debate. One of these clusters is intended to cover the theme of productive sectors and trade, and UNIDO will assume a leading role in its implementation. In this connection, it is my great pleasure to inform you that as of tomorrow UNIDO - at the request of the African Union, NEPAD and the Economic Commission for Africa - will be hosting a meeting of the Industry, Trade and Market Access (ITMA) cluster.

We also anticipate that project approvals in the thematic priority area of trade capacity-building will witness a substantial increase in 2007 and the next biennium. This reflects the enhanced recognition that our focused services in this thematic area are gaining among the donor community, especially in the context of the Aid for Trade initiative under the auspices of the World Trade Organization. I therefore expect that bilateral donors will continue to support our contributions in this field, and am particularly hopeful of substantial future funding from the European Commission in connection with the Economic Partnership Agreements currently under negotiation with ACP regions and countries.

In the thematic priority area of environment and energy I expect to see a further diversification of funding patterns in the coming years. In particular, the relative contribution of funding from the Global Environment Facility is expected to increase significantly. This trend will be reinforced by the decision of the GEF Council last December to grant direct access to GEF funds to all seven Executing Agencies, including UNIDO, in their respective areas of comparative advantage. The funding

under the Montreal Protocol is expected to stabilize at the current level although depending on decisions still to be made at the level of the Executive Committee concerning additional coverage, funding could also increase considerably in 2008-2009. In addition, UNIDO will continue to rely on bilateral donors to fund a number of its technical cooperation activities in the environmental field, in particular the National Cleaner Production Centre programme to which both UNIDO and UNEP attach great importance as a collaborative venture. A comprehensive and thorough evaluation of the entire NCPC programme is currently in progress, and will form the basis for future enhancements.

Chart 2

It is against this promising background that – within a rather conservative scenario - we project an overall increase in technical cooperation approvals from \$ 253 million in this biennium to \$ 336 million in the next biennium, i.e. a growth by exactly one third. Within this impressive overall growth, we expect approvals for our poverty reduction and trade capacity-building themes to grow by 52 per cent and 56 per cent, respectively while approvals under the environment and energy theme are forecast to grow at a more modest pace of 13 per cent.

Mr. Chairman,
Distinguished Delegates,

Programme and budgets 2008-2009

This brings me to the most important item on the agenda of our meeting: the programme and budgets for 2008-2009. I have submitted to you my first budget proposal and look forward to the results of your deliberations. In an effort to facilitate the achievement of a broad consensus, I have decided to establish a ceiling of zero real growth for the regular budget in my proposals – with the only exception of one-off expenditures required for the introduction of IPSAS. As I have stressed in the executive summary of the budget document, however, I have taken this decision in full cognizance of the fact that it imposes severe financial constraints on UNIDO. The limits that these financial constraints will impose on our capacities to develop and implement technical cooperation programmes and other support activities for our Member States will put in jeopardy the significant growth potentials implied by the prospective demand for our services, and the anticipated availability of extra-budgetary resources to fund them, which I presented a few moments ago. I would therefore urge Member States to positively respond to my proposals, and provide our Organization with the resources it requires to be able to serve you effectively. For the longer term, I would even reiterate the request I made to you in my statement to the 22nd session of the PBC in September 2006, to consider investing more in UNIDO in a manner that is commensurate to its mandate and the demand for its services.

The Secretariat has provided extensive briefings on my budget proposals to the various regional groups in a number of pre-session meetings held last month. I trust that this exercise would have provided an opportunity for an exchange of views and helped to create a fuller understanding of the underlying purpose and objectives of my proposals. In the interest of conciseness, I will therefore restrict myself to highlighting the salient features of these proposals in my present statement.

Mr. Chairman,
Distinguished Delegates,

The first point that I wish to make is that the proposals in front of you are marked by a high degree of continuity. They continue to conform to the guidelines set by the Member States in such documents as the Business Plan, the Strategic Guidelines towards Improved UNIDO Programme Delivery, and the Strategic Long-term Vision Statement. Similarly, they correspond fully to the principal development priorities of the global community, such as the Millennium Development Goals, the Doha Development Agenda, the International Conference on Financing for Development, the World Summit on Sustainable Development and various multilateral environmental agreements. In addition, they continue to be presented in a thematic format, have broadly the same programme structure as the current Programme and Budgets for 2006-2007, and are based on the same results-based budgeting approach. In each case, however, refinements and innovations have been introduced in line with our policy of continuous improvement and learning, and in order to enable us to provide more effective services to Member States.

In this connection, I would like to draw your attention in particular to the perhaps small yet significant changes made to the results-based management framework adopted in the Programme and Budgets for 2008-2009. Drawing on the experience of the present biennium, the proposals for the coming biennium clearly specify the sources of verification for the various performance indicators. The inclusion of this item will bring greater transparency to the task of monitoring and assessing the indicators. In addition, it is noteworthy that in the new budget proposal, the RBM approach has also been applied to the Regular Programme of Technical Cooperation.

Mr. Chairman,
Distinguished Delegates,

A remarkable feature of the programme and budgets 2008-2009 is an enhanced emphasis on substantive activities. The share of resources allocated to the major programmes representing the three principal thematic priorities of UNIDO – Poverty Reduction through Productive Activities, Trade Capacity-Building, and Environment and Energy – has thus been increased from 40.1 per cent in 2006-2007 to 41.5 per cent in 2008-2009. Moreover, within this set of substantive major programmes, increased priority is given to the activities related to poverty reduction through productive activities, whose share of total budgetary allocations has increased from 12.2 per cent in the current budget for 2006-2007 to 15.7 per cent in 2008-2009, partly as a result of the refocusing of some existing programmes to this objective.

The budget proposal also provides for the technical programmes of UNIDO to assume responsibility for associated research activities. This mainstreaming of action-oriented research will enrich the substantive technical programmes and enable them to develop the analytical and conceptual underpinnings for more effective technical cooperation activities. The remaining core research programme will have a sharpened focus on upstream strategic research activities.

My Programme and Budgets proposals for 2008-2009 also give enhanced emphasis to UNIDO's field operations, inter alia through the allocation of more senior posts to regional field offices and through the full financial provision for 20 UNIDO Desks as part of our cooperation agreement with UNDP. Indeed, I even envisage the prospect for a further expansion of this number to 30 if the additional Desks can be funded through extra-budgetary means – either through donor contributions or by the host governments. This reflects my response to the importance attached by Member States to a strong field representation, and also my desire to enable UNIDO to provide a rapid and targeted response to country-level demand for its services. The increased field presence would also enable UNIDO to participate more effectively in the field-level formulation of country programmes under the UN coherence agenda commonly referred to as the “delivering-as-one” approach.

The rejuvenation of staff and renewal of UNIDO's skills base is another important feature of my budget proposal. I propose that steps be taken to replace the numerous senior staff members retiring or taking field assignments, with a larger number of staff at the junior level with the required skills thereby expanding UNIDO's pool of technically competent core staff. As part of this rejuvenation drive, the budget proposal provides for the establishment of an innovative young professionals programme through which a steady flow of talented and motivated young graduates would be brought into the Organization directly from universities. With appropriate support and mentoring, these young professionals could form the nucleus of UNIDO's future generation of technical staff.

The proposals contained in the Programme and Budgets for 2008-2009 give due regard to the call by Member States for UNIDO to raise its visibility and strategic positioning through increased awareness-raising measures, which was most recently expressed in decision IDB.31/Dec.2. Similarly, the budget proposal also takes fully into consideration the decision of Member States (in IDB.31/Dec.3) for UNIDO to establish closer cooperation and coordination with other UN agencies and development partners to maximize impact. Responding to these mandates, I propose to strengthen UNIDO's capacities for engaging in advocacy activities through the establishment of a dedicated programme devoted to this issue under Major Programme B dealing with Executive Direction and Strategic Management. Under the same Major Programme, I also propose to establish another separate programme devoted to Strategic Planning and UN System Coordination. This will help to ensure UNIDO's active participation in the accelerating process of UN system-wide reform, while maintaining our Organization's integrity and identity as an important specialized agency with a critical role to play in achieving the development objectives set by the international community.

Finally, turning to the programme performance report, it is my great pleasure to present you a completely redesigned and restructured Annual Report, which I hope will meet with your approval. Recognizing that the Annual Report has an important public information and advocacy role that transcends its official role as a legislative document, we have decided to make it more visually appealing and reader-friendly, without, of course, sacrificing the quality of the information it contains. I am sure you will agree with me that we have succeeded in this endeavour.

[statement to be continued by Ms.Amita Misra, Director, Financial Services]

Mr. Chairman,
Distinguished Delegates,

Allow me to briefly elaborate on the issue of the International Public Sector Accounting Standards (IPSAS). In the context of the UN reform process, the decision to adopt IPSAS throughout the system by 1 January 2010, which was endorsed by the Member States of UNIDO at the last IDB in decision IDB.32/Dec.5, has had a significant impact on the formulation of the Programme and Budgets for 2008-2009. While it has been universally acknowledged that IPSAS is a superior system to the one currently in use, its full implementation by 1 January 2010 requires a number of preparatory measures to be taken during the biennium 2008-2009, which inevitably has budgetary implications. In preparing the Programme and Budgets for 2008-2009, we have obviously tried to keep these costs as low as possible. However, we do not believe that it would be appropriate to cover the costs of such an administrative reform measure – which, moreover, is of a system-wide nature and has been mandated by the Member States – at the expense of reducing services to our Member States. Thus these costs amounting to €1.2 million are accounted in a separate programme (G.6), which has not been included in the zero-real growth budget ceiling. We sincerely hope that Member States will share our reluctance to reduce our substantive services in order to meet these costs, and will provide the additional resources needed to cover them.

The aggregate budget figures so derived at the rates of the current 2006-2007 budget have been re-costed to take into account anticipated changes in the price level. In making this adjustment, we have employed a factor of 1.89 per cent, which is less than the 2 per cent figure employed for the 2006-2007 budget. The total regular budget requirements that need to be funded from assessed contributions therefore would increase by a sum of € 6.5 million (including IPSAS) over the current biennium. This represents the essential minimum requirement for maintaining our activities at their current level.

Mr. Chairman,
Distinguished Delegates,

While the Programme and Budgets for 2008-2009 is without doubt the most crucial item on the agenda of this meeting, we are conscious of the fact that the agenda also contains a number of other important items. Kindly permit me, in the few minutes remaining to me, to say a few words on these issues.

Agenda item 3 – Performance reports

The first substantive item on the agenda of this meeting covers the interim report of the External Auditor, including the implementation of recommendations for the biennium 2004-2005, and the financial and programme performance reports for the biennium 2006-2007. With regard to the first of these issues, we would like to acknowledge the Report of the External Auditor, which will be presented to you by a representative of the Auditor-General of South Africa, Mr. Terence Nombembe, who,

unfortunately, is unable to be with us today. As noted in the report, the Secretariat has implemented many recommendations made by the Auditors to their satisfaction. For some of the recommendations not yet implemented, actions are well underway to implement them. We would like to assure you that the Secretariat will continue to work closely with the Auditor-General and his staff to ensure that all recommendations are implemented to his satisfaction, taking into account prudent management policies and best practices.

With regard to the financial performance report and the related agenda item 4 on the financial situation of UNIDO, we are happy to report that the Organization continues to be in sound financial health. As the Director-General has already mentioned earlier, the collection rate of assessed contributions reached an all time high of almost 94 per cent in 2006, and we would like to thank you, the Member States, for this high level of support and expression of confidence in our Organization. We are assuming the same level of continued support for 2007 and have planned our proposed budgetary activities accordingly. With regard to UNIDO's financial performance, we are also pleased to report that the level of regular budget cash balances continues to be high, and stood at €9 million at 31 March of this year.

Agenda items 6 and 7 – Scale of assessments and working capital fund

Mr. Chairman,
Distinguished Delegates,

Allow me to say a few words about assessed contributions. In line with the UNIDO Constitution, for the fiscal period 2008-2009, the Scale of Assessments will be based on the application of the latest available assessment rates adopted by the United Nations General Assembly, adjusted to UNIDO membership. The assessed contributions and working capital fund of Member States will be consequently affected.

In this connection we would like to reiterate that collection of arrears is of utmost importance to UNIDO and we should like to take this opportunity to thank all those Member States that are meeting their obligations, including those that have entered into payment plan agreements. We should also like to remind all those Member States that have not yet met their obligations to do so, in order to enable the full implementation of the programme and budget.

Please rest assured that efforts are being made to reduce the outstanding amount of arrears. We can already report some successes in this endeavour. For example, the total outstanding amount at the end of 2006 was reduced to €19 million from €20 million at the end of 2005. At the same time, the number of Member States without voting rights went down to 41 by the end of 2006 - the lowest number since 1993.

One of the successful strategies used is the payment plan mechanism whereby the arrears are steadily reduced. So far, nine payment plans have been in operation since 2002, with total arrears of €13 million. Of these, more than €8 million have been received by UNIDO, and three Member States have fully paid their obligations by

now. We hereby wish to take this opportunity to invite all Member States with arrears to consider entering into such agreements as well.

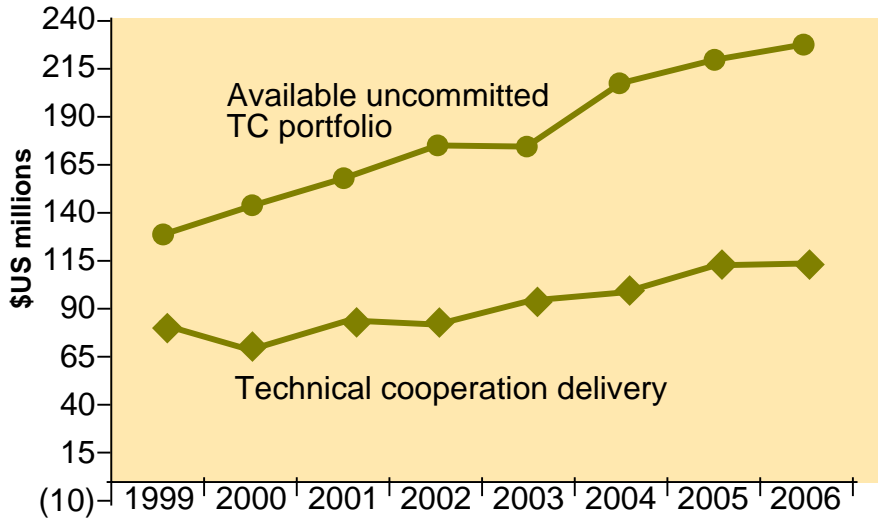
Mr. Chairman,
Distinguished Delegates,

We thank you for your attention and your continued support for our Organization, and wish you all the best for your deliberations.

Thank you.



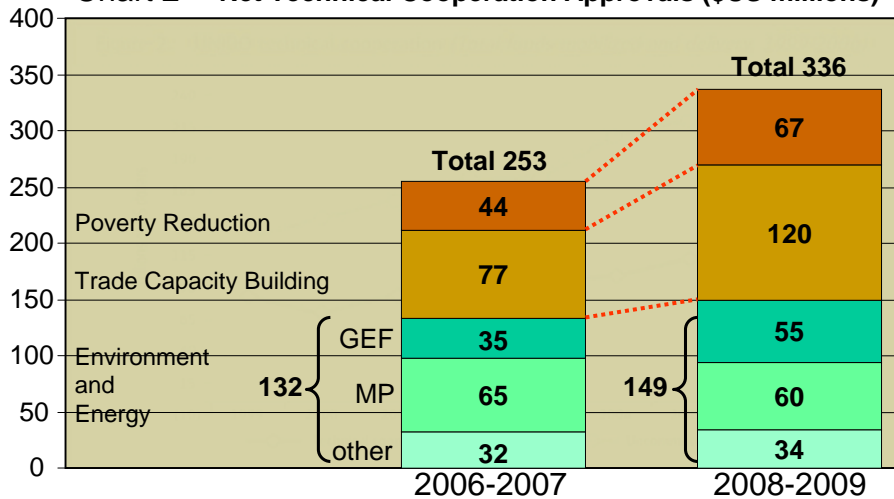
Chart 1 Technical cooperation: total funds mobilized and delivery 1999-2006 (in \$US millions)



23rd Session of PBC: Opening Statement of Director-General Kandeh K. Yumkella



Chart 2 Net Technical Cooperation Approvals (\$US millions)



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