



# United Nations Industrial Development Organization

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## General Conference

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### Financial situation of UNIDO

## Unutilized balances of appropriations

### Report by the Director-General

The present document updates the information on unutilized balances of appropriations, provided to the twenty-seventh session of the Programme and Budget Committee and the thirty-ninth session of the Industrial Development Board (IDB.39/12-PBC.27/12).

## I. Background and recent trends

1. In recent years, Member States together with the Secretariat have made conscious efforts to reduce the arrears in assessed contributions that have accumulated over time. In the current biennium 2010-2011, numerous Member States<sup>1</sup> have made repayments of arrears stemming from a previous biennium. A number of Member States have also committed themselves to specific payment plans agreed in response to close consultations between them and the Secretariat. These agreements underline the strong commitment of these Member States to UNIDO, and the relevance of the services that the Organization provides.

2. Based on these agreements, several Member States have begun to make significant repayments of their arrears since the 2008-2009 biennium. Almost

<sup>1</sup> Armenia, Azerbaijan, Benin, Bolivia (Plurinational State of), Brazil, Burundi, Cambodia, Cameroon, Cape Verde, Chile, Cuba, Ecuador, Equatorial Guinea, Fiji, Gabon, Honduras, Kenya, Kyrgyzstan, Lebanon, Liberia, Mali, Mexico, Morocco, Nepal, Nigeria, Pakistan, Panama, Peru, Republic of Moldova, Rwanda, Samoa, Senegal, Sierra Leone, Tajikistan, Timor-Leste, Togo, Uganda, Ukraine, United Republic of Tanzania, Uruguay, Uzbekistan, Venezuela (Bolivarian Republic of), Yemen.

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entirely as a result of the repayments of arrears, which have accelerated in 2010-2011, it is estimated that an amount of €23.9 million will be available at the end of 2011. This figure represents an increase over the amount of €18.6 million reported previously in document IDB.39/12-PBC.27/12.

3. Unless otherwise decided by the fourteenth session of the General Conference, the Organization will be required to distribute the full amount to Member States on 1 January 2012 as unutilized balances of appropriations (UBs) in accordance with the Organization's financial regulations.

4. Never before in the history of UNIDO has the amount of available UBs been as high as it is today as a consequence of the increased repayment of arrears by Member States. This trend is set to continue, moreover, with further significant amounts of at least €12.4 million, expected to be received by the end of 2012.

## **II. Definition and relevant regulations**

5. UBs are defined as the difference between regular budget appropriations and actual expenditures. They usually arise from the non- or delayed payment, within a biennium, of assessed contributions, resulting in the under-implementation of the approved programme and budgets. As shown above, however, in the present case they are almost entirely the result of repayments by Member States of arrears from preceding bienniums (in some cases going back more than a decade).

6. Financial regulations 5.2 and 5.5 regulate the treatment of assessed contributions. For the distribution of UBs the relevant financial regulations are 4.2 (b) and (c), where these balances are referred to as unencumbered balances. These regulations stipulate that the unencumbered balances of collected appropriations shall be credited to Member States in proportion to their assessed contributions (i.e. in accordance with the respective scale of assessments). Only those Member States that have fully paid their assessed contributions for the biennium to which the credits relate are eligible to receive the credits.

7. The full text of these regulations is annexed to this document.

## **III. History and past practice in the distribution of unutilized balances**

8. Conference room paper PBC.27/CRP.5 issued on 11 May 2011 provided a comprehensive historical overview of the subject, including an annex with the text of previous UB-related decisions made by the General Conference.

9. Document IDB.39/12-PBC.27/12 of 6 April 2011 cited above, provided an estimate of UB balances becoming available for distribution at the end of 2011, amounting to €18.6 million at that time. This subject was not discussed at the sessions of the Programme and Budget Committee and the Industrial Development Board that took place during 2011.

10. As stipulated in financial regulation 5.5 (c), any payment made by a Member State is credited first to the Working Capital Fund and then to the contributions due, in the order in which the Member State was assessed. Hence, settlement by a

Member State of prior period assessments, including an instalment received under a payment plan, is applied in accordance with this regulation.

11. In the past there were various General Conference decisions on the retention of UB amounts. These included, inter alia, decisions on funding the implementation of integrated programmes, particularly for least developed countries (LDCs); activities under the Business Plan on the Future Role and Functions of UNIDO; activities in support of the Millennium Development Goals and, most recently, funding the Programme for Change and Organizational Renewal (document PBC.27/CRP.5 refers).

#### **IV. Potential use of unutilized balances to strengthen UNIDO programmes**

12. Though varied and differentiated, the development needs of all developing regions and countries remain substantial, and have often been aggravated by the effects of the global financial and economic crisis. While sub-Saharan Africa has recorded positive growth in gross domestic product (GDP) in recent years, this has been due largely to volatile commodity prices, which have also impacted negatively on food security. The region remains the world's poorest, with over fifty per cent of its population living on less than US\$ 1.25 a day. The Asia and Pacific region is still home to millions living in extreme poverty, with a number of countries particularly affected by the threat of climate change. The Arab region faces diverse challenges, but youth unemployment is a growing issue, for which increased competitiveness and economic diversification is needed. Meanwhile the region Europe and the Newly Independent States (NIS) has been severely affected by the crisis, with most countries experiencing negative growth.

13. The region of Latin America and the Caribbean faces unique development challenges. Despite a promising economic performance in certain countries in the region, many other countries continue to suffer from acute levels of poverty. This is exacerbated by rising unemployment, especially in the manufacturing sectors of many urban areas. Within this overall context of high poverty levels, the gaps between high- and low-income groups, rural and urban areas, and more developed and less developed areas, are more pronounced than before. In addition to this, and while there has also been a notable decrease in official development assistance (ODA) spending throughout all regions, UNIDO has experienced particular difficulties in mobilizing funds for its programmes in support of the region of Latin America and the Caribbean.

14. Against this background, the use of UBs to strengthen the programmes of UNIDO in certain areas that are particularly subject to funding difficulties would allow Member States to maximize the Organization's impact in difficult times without imposing additional costs. Furthermore, doing so would reinforce the incentive for Member States in arrears to discharge their outstanding obligations to the Organization. It is therefore proposed that Member States permit UNIDO to retain the UBs due for distribution at the end of 2011. These retained funds would be used as seed money and/or co-funding for the development and implementation of programmes and projects in areas of critical interest to Member States. While these could include activities related to all of the UNIDO thematic priorities based

on specific requests received from Member States, it is suggested that special emphasis should be given to the following proposal:

(a) Given the challenges faced by UNIDO in mobilizing funds for the provision of its development services to the region, the amount of €6 million should be allocated to a new Special Fund for Latin America and the Caribbean, which would be used to leverage the mobilization of additional resources. Targeted particularly at the poorest countries in Latin America and the Caribbean, the purpose of the Special Fund would be to provide support for services in thematic areas of particular interest to Member States from the region, above all those thematic areas which have generally suffered from limited funding. These include, inter alia, support for strategies to meet challenges in global, regional and subregional trade and economic integration; support for the building and sharing of industrial policies and industrial knowledge; and assistance in the efficient use of energy for productive activities;

(b) The remaining amount of the UBs to be retained should be allocated to the following programmatic areas, which are in acute need of funding in the context of the ongoing financial and economic crisis: (i) strengthening food security in LDCs through the implementation of initiatives in agro-industry development; (ii) securing access to energy for productive uses, with particular emphasis on access to energy by women; (iii) supporting economic diversification to create employment in the productive sectors, particularly targeting vulnerable groups, including youth, in countries emerging from crisis; and (iv) increasing the competitiveness of industries in developing countries through compliance with standards and demands concerning, inter alia, sustainable industrial development, green industry and energy efficiency.

15. It may be noted that while there is considerable demand for UNIDO services in these areas, the Organization frequently encounters difficulties in formulating and developing relevant projects from the limited resources available from the Regular Programme of Technical Cooperation (which receives only six per cent of the total regular budget, in accordance with the Constitution, Annex II, part B), and in mobilizing the co-funding that some donors require. Access to retained UBs would significantly ease these constraints.

## **V. Action required of the Conference**

16. The Conference may wish to decide to allocate funds from the unutilized balances of appropriations, otherwise due for distribution at the end of the current 2010-2011 biennium, to strengthen the programmes of UNIDO according to the above proposal.

17. Alternatively, if no consensus can be reached at the Conference on the above proposal, the Conference may wish to instruct the Director-General to safeguard the accumulated UBs pending a decision on their use by the Industrial Development Board following due consideration by the informal working group on the future, including programmes and resources, of UNIDO, established via decision IDB.39/Dec.7.

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## Annex

### Full text of relevant regulations

#### Regulation 4.2

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

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

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

#### Regulation 5.2

For each of the financial years of the biennium, the assessment of Members shall be adjusted in respect of:

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

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

(c) Contributions resulting from the assessment of new Members as provided in financial regulation 5.6;

(d) Any balance of the appropriations surrendered to Members under financial regulation 4.2 (b) and (c).

## **Regulation 5.5**

(a) After the Conference has approved the estimates for the regular budget, established the scale of assessments and determined the amount and purposes of the Working Capital Fund, the Director-General shall as soon as possible with respect to each year of the biennium:

- (i) Transmit the relevant documents to Members;
- (ii) Inform Members of their obligations in respect of annual contributions to the regular budget and of advances to the Working Capital Fund;
- (iii) Request Members to remit their contributions and advances;

(b) Contributions and advances shall be due and payable in full within thirty days of the receipt of the communication of the Director-General, referred to in subparagraph (a) above, or as of the first day of the financial year to which it relates, whichever is later. As of 1 January of the following financial year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears;

(c) Payments made by a Member shall be credited first to the Working Capital Fund and then to the contributions due, in the order in which the Member was assessed;

(d) Advances to the Working Capital Fund shall be assessed and paid in euros;

- (e) Contributions to the regular budget are established in euros.