



# United Nations Industrial Development Organization

Distr.: General  
18 March 2015

Original: English

## Industrial Development Board

### Forty-third session

Vienna, 23-25 June 2015

Item 4 (b) of the provisional agenda

**Financial situation of UNIDO, including  
unutilized balances of appropriations**

## Programme and Budget Committee

### Thirty-first session

Vienna, 27-29 May 2015

Item 5 of the provisional agenda

**Financial situation of UNIDO, including  
unutilized balances of appropriations**

## Enhancements to the financial management framework

### Proposals by the Director General

In accordance with financial regulations 6.3 and 6.4, the Director General wishes to establish two special accounts: (a) Special Account of Voluntary Contributions for Core Activities (SAVCCA) and (b) Major Capital Investment Fund (MCIF). The present report presents the purposes and limits of the special accounts. Furthermore, a proposal on a standardized approach concerning the treatment of unutilized balances of appropriations on the basis of the current Financial Regulations of UNIDO is included for consideration by the policymaking organs.

## Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction . . . . .	1	2
II. Voluntary contributions for core activities . . . . .	2-16	2
III. Major Capital Investment Fund . . . . .	17-37	4
IV. Standardized approach concerning the treatment of unutilized balances of appropriations . . . . .	38-51	6
V. Action required by the Committee . . . . .	52	8

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.15-01697 (E) 260315 270315



Please recycle

## **I. Introduction**

1. In accordance with financial regulations 6.3 and 6.4, the Director General wishes to establish two special accounts: (a) Special Account of Voluntary Contributions for Core Activities (SAVCCA) to facilitate the receipt, management and usage of voluntary contributions for core activities and (b) Major Capital Investment Fund (MCIF) as a funding mechanism to secure funding for major capital investments or replacements. The present report describes the purposes and limits of the special accounts. Furthermore, a proposal on a standardized approach concerning the treatment of unutilized balances of appropriations on the basis of the current Financial Regulations of UNIDO is included for consideration by the policymaking organs.

## **II. Voluntary contributions for core activities**

2. At its fifteenth session, the General Conference welcomed the outcome document of the informal working group on the future, including programmes and resources, of UNIDO, entitled “Strategic Guidance Document” (IDB.41/24) and endorsed the recommendations relating to the management criteria contained in it. Paragraph 14 of the same document, entitled “managing financial resources” recommended inter alia the following: “During the 2014-2015 biennium, the Secretariat will present a comprehensive report on potential new and innovative sources of finance, including domestic resource mobilization, to enable voluntary contributions, including from Member States, foundations, the private sector and individuals, to be allocated to the regular budget according to established criteria”.

3. In response to the above mandate, the following paragraphs focus on the regulatory framework that allows for voluntary contributions to be allocated to core activities. Once the necessary instruments are in place a funds mobilization strategy can be launched, as summarized below, with a view to operationalizing the modality.

4. Article 16 of the Constitution of UNIDO prescribes that: “Subject to the financial regulations of the Organization, the Director-General, on behalf of the Organization, may accept voluntary contributions to the Organization, including gifts, bequests and subventions, made to the Organization by governments, intergovernmental or non-governmental organizations or other non-governmental sources, provided that the conditions attached to such voluntary contributions are consistent with the objectives and policies of the Organization.” Accordingly, the acceptance of voluntary contributions for core activities normally financed from the regular budget is permissible. Indeed, the option has already been exercised by Member States when deciding on the funding of the Programme for Change and Organizational Renewal (decision GC.13/Dec.15 refers).

5. Voluntary contributions could assist in funding core activities that are not time-bound or are scalable. Such contributions would expand the scope of the core activity, depending on the amounts received.

6. Financial regulation 6.3 describes the applicable instrument for the purpose: “Trust funds, reserve and special accounts may be established by the Director-General and shall be reported to the Board through the Programme and

Budget Committee. Such funds and accounts shall be administered in accordance with the present Regulations.” In line with these provisions, in order to institutionalize the concept of using voluntary contributions to partially fund core activities, the Director General herewith reports to the Board through the Programme and Budget Committee the establishment of a special account for the subject purpose.

7. Furthermore, financial regulation 6.4 shall be observed: “The purposes and limits of each trust fund, reserve and special account shall be clearly defined. The Director-General may, when necessary in connection with the purpose of a trust fund, reserve or special account, promulgate special financial rules to govern the operation of such a fund or account and report thereon to the Board through the Programme and Budget Committee.” In accordance with the above regulation, the special account is defined as follows.

### **Special Account of Voluntary Contributions for Core Activities (SAVCCA)**

#### **Purpose**

8. The purpose of the SAVCCA is to facilitate the receipt, management and usage of voluntary contributions for core activities that cannot be fully funded from the regular budget due to funding constraints.

#### **Limits and special financial rules to govern the operation of the SAVCCA**

9. Activities funded from the SAVCCA and their relation to the major programmes and programmes of the Organization shall be described in the programme and budgets document together with the expected level of contributions, as a special chapter. The approval by the General Conference of the biennial programme and budgets establishes the authority of the Director General to spend funds in the special account for the activities approved in this manner.

10. Activities shall only be executed to the extent contributions are received in the special account. The performance of the SAVCCA shall be reported on as part of the financial performance reports through the Committee to the Board. The special account shall also be reported on in the Organization’s financial statements and audited by the External Auditor as part of the annual audit.

11. A proper confirmation shall be provided to the donor on the receipt of contributions to the special account. No other separate statement shall be issued to the individual contributors.

12. Any uncommitted balance of the special account remains available for activities in the following biennium within the scope of the approved programme and budgets.

13. Interest earned on holdings in the special account is to be retained.

14. In all other respects the Organization’s relevant financial regulations and rules shall apply.

15. As a transitional measure for the biennium 2016-2017, i.e., during the set-up phase of the SAVCCA, when no reliable estimate is available for inclusion in the programme and budgets, the Director General will report during the biennium through the Committee to the Board on the progress of the collection of voluntary

contributions under the special account and the allocation of funds received to the various activities in accordance with the programmes in the approved programme and budgets, 2016-2017.

**Fund raising strategy for soliciting voluntary contributions for core activities from Member States, foundations, the private sector and individuals, including domestic resource mobilization**

16. Following the identification of specific funding gaps and their relation to the major programmes and programmes of the Organization, as specified in the above-mentioned programme and budgets document, the Director General will establish an interdivisional working group tasked to consult potential contributors to the SAVCCA and to elaborate a strategy for resource mobilization. The Director General will report on the outcome of these activities, in line with the above-quoted recommendation of the informal working group on the future, including programmes and resources, of UNIDO.

### **III. Major Capital Investment Fund**

17. A serious shortcoming of the traditional, modified cash-based United Nations budgeting methodology is the lack of an appropriate mechanism to secure funding for major capital investments or replacements. These undertakings require a significant cash outlay and the assurance of funding for periods exceeding a biennium. Consequently, such capital investments cannot be well managed within the biennial budgetary cycle of the Organization.

18. Several organizations introduced some sort of a special account for the purpose of a capital investment fund.

19. The Board of Governors of the International Atomic Energy Agency (IAEA) established a Major Capital Investment Fund (MCIF) as a reserve fund in 2009. Details of the arrangement were described in the IAEA's Programme and Budget 2010-2011 (GC(53)/5, paragraphs 140-146).

20. The Preparatory Commissions for the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO) applies a financial regulation (7.2), which prescribes that a "Capital Investment Fund shall be established to which shall be credited each year budgeted items for the installation and upgrade (Capital Investment Fund — Installation), as well as the long term sustainment (Capital Investment Fund — Sustainment), of IMS stations/facilities".

21. The United Nations System Working Group on Capital Budgeting, established by the Finance and Budget Network of the High-level Committee on Management (HLCM/FB) concluded in its report of 19 January 2009 (document CEB/2009/HLCM/FB/2) that "eight organizations (32 per cent) do have some form of capital budgeting policy in place and explicitly engage in a variation of the practice/concept." The survey was not updated by the HLCM in recent years.

22. To ensure funding for the upkeep of its infrastructure, most prominently the enterprise resource planning (ERP) system, UNIDO would greatly benefit from an MCIF, which could be modelled after the IAEA methodology.

23. Preliminary estimates show that for fine-tuning and developing the ERP system in order to have it keep pace with technology progress, additional investments of €1.5 million would be needed in 2016-2017 and a major upgrade would become due in 2018-2019 at an estimated cost of €5 million. The information technology (IT) infrastructure would also require on average an annual investment of €1 million, in addition to the regular maintenance costs.

24. In order not to burden the biennial budgets in an uneven way and to allow the accumulation of funds for such future investments, a MCIF could be set up as a special account under financial regulation 6.3.

25. The proposed purposes and limits of this Fund and the authority to incur expenditure would be as follows.

### **Major Capital Investment Fund**

#### **Purpose**

26. The MCIF provides a funding mechanism to secure funding for major capital investments or replacements in such a way that major expenditures of a one-off or infrequent nature will not cause significant distortion to levels of the regular budgets.

#### **Limits and special financial rules to govern the operation of the MCIF**

27. The MCIF will be set up as a special account under financial regulation 6.3.

28. The MCIF will be funded by allocations in the regular budget and any other source as the Board may determine. The MCIF would be open to receiving extrabudgetary (voluntary) contributions for the purposes covered by the Fund.

29. The Director General will incur expenditures from the MCIF to implement major capital investments in compliance with the Financial Regulations and Rules of UNIDO.

30. Operations of the MCIF will be reviewed by the policymaking organs in the framework of the established programme and budgets approval process to determine, inter alia, the adequacy of the fund balance and the level of allocations required within the regular budget after considering such factors as extrabudgetary contributions received or pledged for items covered by the Fund, rate of implementation, and adjustments to the schedule of capital investments due to changes in circumstances or prioritization.

31. Any uncommitted balance of the MCIF will remain available for funding of future investments within the scope of the approved programme and budgets.

32. Interest earned on holdings in the Fund is to be retained in the Fund.

33. The MCIF shall be reported in the Organization's financial statements and be audited by the External Auditor as part of the annual audit.

34. Savings from the regular budget (cash surplus over actual expenditures at the end of the biennium) will be retained within the MCIF to fund eligible items under the Fund.

35. In the biennium 2016-2017 the MCIF will be funded as follows:
- (a) By transferring the remaining balance of the PCOR funds as at 31 December 2015, to the MCIF;
  - (b) Extrabudgetary contributions, the magnitude of which cannot be estimated before some experience with the operation of the Fund is accumulated;
  - (c) Biennium-end savings from the 2014-2015 regular budget in case of a cash surplus at 31 December 2015.
36. Items for funding by the MCIF will have been assessed in accordance with the following criteria; that such items:
- (a) Be a compelling priority;
  - (b) Have a useful life in excess of one financial year;
  - (c) Have a total value throughout their lifespan of €200,000 or more;
  - (d) Be of a major infrastructure nature (e.g. buildings, major IT systems, and other infrastructure such as the ERP system);
  - (e) Be major expenditures of a one-off or infrequent nature, which would cause significant distortion to the levels of the operational portion of the regular budgets. Partial tranches/instalments could be provided over several years in order to avoid spikes in the funding requirements of the regular budget in any one period.
37. Efforts will be made to accumulate sufficient balances in the MCIF from year to year to allow for the payment of due costs of the covered items. In this manner, any sharp variations in the biennial requirements for allocations within the regular budget to support the MCIF should be evened out to the extent possible.

#### **IV. Standardized approach concerning the treatment of unutilized balances of appropriations**

38. A report presented by the Director General to the General Conference at its fourteenth session (GC.14/18) described the regulatory framework, history and past practice in the distribution of unutilized balances and suggested some areas where unutilized balances could be used to strengthen UNIDO programmes. At its fourteenth session in December 2011 the General Conference “encouraged Member States to consider voluntarily renouncing their shares of the unutilized balances of appropriations to strengthen the programmes of UNIDO” (decision GC.14/Dec.14).
39. In document GC.15/14, presented to the fifteenth session of the General Conference, the Director General reported on the amount of unutilized balances of appropriations becoming available for distribution on 1 January 2014. The same report also updated the areas of potential use of voluntarily renounced shares thereof. In decision GC.15/Dec.13, paragraph (h), the Conference once again encouraged Member States to consider voluntarily renouncing their shares of the unutilized balances of appropriations in order to strengthen the programmes of UNIDO and/or to fund the retention of office space.
40. At the level of sessional documents, conference room paper PBC.27/CRP.5 issued on 11 May 2011 provided a comprehensive legal and historical overview of

the subject, including an annex with the texts of previous General Conference decisions and resolutions related to unutilized balances. As the large number of documents and the extent of discussions at sessions of the policymaking organs demonstrate, the topic absorbs significant time and resources of Member States and the Secretariat. To streamline future agendas of the sessions of policymaking organs and reduce the requirements for documents, the Director General presents herewith his proposal through the Committee to the Board for a standardized approach concerning the treatment of unutilized balances of appropriations as follows.

### **Definitions**

41. Unutilized balances of appropriations are defined as the difference between regular budget appropriations and actual expenditures. These balances arise from the non-payment or delayed payment, within a biennium, of assessed contributions by Member States, resulting in the under-implementation of the approved programme.

42. The use of unutilized balances is governed by the financial regulations, where they are referred to as unencumbered balances. In particular, financial regulations 4.2 (b) and (c) stipulate that the unencumbered balances of 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.

43. Though the relevant financial regulations make no distinction, there are two significantly different origins of unutilized balances that are due to Member States.

### **Collection of past-biennium arrears**

44. Several Member States were hindered in different bienniums in their timely payment of assessed contributions. When these Member States become again able to meet their financial obligations they pay their arrears, eventually in the framework of a multi-year payment plan. These contributions are received at UNIDO after the bienniums the payments relate to. At the time when the contributions remained outstanding the Director General had no choice but to trim back the approved programmes so as not to endanger the financial stability of the Organization.

45. When the arrears payments are received these need to be returned to Member States, in accordance with the above-referenced financial regulations, unless Member States decided otherwise. Decisions to allow the use of these unutilized balances for different activities were repeatedly encouraged by the policymaking organs, emphasizing however the voluntary nature of the same.

### **Cash surplus at the end of the biennium**

46. At the end of the biennium the collected amount of cash from the receipt of assessed contributions and other income may exceed the level of expenditures (i.e. payments and outstanding commitments).

47. Two primary reasons can lead to a cash surplus: (a) unpredictable or late (but still within the biennium) payment of assessed contributions or (b) savings achieved in the execution of the approved programmes.

48. A cash surplus is always the result of sound financial management, i.e. by mitigating the potential risk of not receiving assessed contributions on time or, indeed, by generating genuine savings.

#### **Proposed standardized treatment of unutilized balances**

49. Collection of past-biennium arrears will be reported to Member States through issuance of an information note, listing each share, as soon as the amounts become available for distribution. At the same time the unutilized balances under this category will be transferred to the Special Account of Voluntary Contributions for Core Activities.

50. Any Member State, which is unable to voluntarily renounce its share of the unutilized balances from collection of past-biennium arrears, will inform the Secretariat within 30 days after the issuance of the information note, indicating the requested treatment of its share.

51. Any cash surplus at the end of the biennium will be transferred to the Major Capital Investment Fund as part of the financial closure and hence will not become part of the unutilized balances. For further details please refer to section II of this document describing the MCIF facility.

## **V. Action required by the Committee**

52. The Committee may wish to take note of the creation of two special accounts described in the present document and recommend to the Board the endorsement of the proposed standardized treatment of unutilized balances.

---