



Industrial Development Board
Fifty-first session
Vienna, 3–6 July 2023

Programme and Budget Committee
Thirty-ninth session
Vienna, 15–17 May 2023
Item 10 of the provisional agenda
**Budget implementation flexibility for
biennium 2024–2025**

Budget implementation flexibility for biennium 2024–2025

Note by the Secretariat

The present document presents a proposal by the Director General to grant budget implementation flexibility starting as of biennium 2024–2025

I. Rationale for budget implementation flexibility within approved result areas

1. The Report of the External Auditor on the accounts of UNIDO for the financial year 2020, as presented in document IDB.49/3, highlights UNIDO's rigid budget management framework and notes that it leads to an increased focus on budget execution, thus preventing opportunities to improve efficiency and search for savings. These comments have been further echoed by the Oversight Advisory Committee.
2. Following up on the recommendation by the External Auditor, in 2021 the Secretariat surveyed the organizations of the United Nations system. The survey focused on budget presentation requirements, type of allowed budgetary transfers and limits on budgetary transfers, approval authority for transfers and modes of approval. Thirteen organizations of the United Nations system responded, representing 45 per cent of United Nations system organizations. The application of budget implementation flexibility was confirmed by 12 of the 13 organizations replying. The flexibility ranges from no limit, to between 5 and 15 per cent of the section from which the transfer is made.
3. In 2022, soaring energy prices and record high inflation created new challenges for UNIDO operations, which are projected to extend further into 2023. On average, the 2022 inflation in the European Union and developing countries reached an all-time high approaching 10 per cent, which by far exceeds the approved inflation

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for the 2022–2023 biennium, impacting UNIDO’s real costs in 2022. This situation creates a heavy burden on UNIDO’s resource base and necessitates innovative and alternative means and tools of applying efficiency and achieving savings.

4. The UNIDO budgets are segregated by source of funding, result area and major objects of expenditure. This leads to a strictly compartmentalized resources preventing their efficient use. Efficiencies and cost savings in non-staff costs, such as those relating to travel, consultancy, digitalization and information technology, as well as related to indirect costs, will continue to be pursued. At the same time, the current tools are being exhausted, bringing minimum to no returns. The granularity of UNIDO budgets slowly turns a regulating and balancing mechanism into a constricting one.

5. The UNIDO Secretariat appreciates the cooperation and support shown by the Member States during the discussions on flexibility at the informal working group on Programme and Budget Committee-related issues during its consideration of budget implementation flexibility, which started in 2021. At the fiftieth session of the Industrial Development Board in November 2022, the Director General, Gerd Müller, informed UNIDO Member States with the imminent request to grant budget implementation flexibility.

6. In the context of the United Nations development system reform, UNIDO needs to align with the established practices of other organizations of the United Nations system that apply the provision for transfer of appropriations within the approved programmes/chapters. This, *inter alia*, will facilitate the implementation of the UNDS reform in terms of operationalizing the Inter-Agency Mutual Recognition Agreements.

7. Taking lessons learned from 2022, UNIDO requests enhanced budget flexibility both horizontally, thus allowing immediate re-investment of programme support income to cover for new overheads, and vertically, between major objects of expenditure within the approved result areas, to continue its results-based budget implementation and to identify and achieve further savings and efficiencies to deliver more.

8. To support the Organization’s reform and its drive to deliver results, UNIDO seeks greater budget flexibility from its Member States. Concerted efforts will continue to increase recovery of support costs incurred through the implementation of technical cooperation activities. The Organization needs to be able to re-invest the efficiency gains and higher income obtained to deliver “much more with more”.

II. Proposal by the Director General

9. To continue on the way of results-based budget implementation the Director General hereby submits two proposals for consideration and review by Member States, to facilitate budget implementation flexibility: horizontal flexibility, allowing for immediate re-investment of income to cover new overheads; and vertical flexibility, between major objects of expenditure, and requests the revision of the UNIDO Financial Regulations 4.1 and 4.3 to achieve further savings and efficiencies to deliver more.

10. Further to the above, and as a cost containment measure in the current economic circumstances, the Director General requests UNIDO Member States to authorize 10 per cent **vertical** budget flexibility within the result areas and excluding funds allocated for the Regular Programme for Technical Cooperation, namely flexibility to transfer appropriations between the four major objects of expenditure being staff costs, travel, operating costs, information technology and communications in the amount not to exceed 10 per cent of the source item.

11. The request for vertical flexibility was first presented for consideration in 2021 and attracted extensive discussions at the informal working group on Programme and Budget Committee-related issues, at the thirty-seventh session of the Programme and

Budget Committee and at the forty-ninth session of the Industrial Development Board. At the time, consensus was almost reached for the review of Financial Regulation 4.3 presented in a revised version below:

Regulation 4.3 Current wording

(a) No transfer of expenditures shall take place between the regular budget and the operational budget;

(b) No transfer between major objects of expenditure within the regular budget may take place, except when approved by the Conference in accordance with regulation 3.11;

(c) Transfers within major objects of expenditure of the regular budget may be made by the Director General, who shall inform the Board, through the Programme and Budget Committee, and the Conference thereof as soon as possible provided that in the first biennium following its creation, a Professional-level post may not be transferred to another programme or subprogramme.

Regulation 4.3 Proposed new wording for para (b)

“[...]

(b) The Director General, within the amounts approved by the General Conference for the regular budget and the operational budget, may make transfers between the major objects of expenditure of up to 10 per cent of the initially appropriated regular or operational budget amounts from which the transfers are made. The Director General shall inform in writing the General Conference through the Programme and Budget Committee and the Industrial Development Board, at the session following such action, of the details and reasons for these transfers.”

[...]”

12. The thematic priorities advanced by the Director General were met with a strong increase in demand for new UNIDO services, notably surrounding industrial de-carbonization and green hydrogen, food security, job creation and local value addition, as well as sustainable supply chains and sustainability standards.

13. To respond to this demand, the ambition reflected in the proposed programme and budgets 2024–2025 is to increase technical cooperation delivery by up to 25 per cent during the course of the coming biennium. The operational budget is hence estimated to increase to the gross amount of €46 million, reflecting the above-mentioned increase in delivery by latest 2025.

14. Support by Member States is required to facilitate the expansion drive by creating a mechanism (horizontal flexibility) within the Financial Regulations to allow for immediate re-investment of the support cost recovered above the forecasted amount to enable UNIDO’s fast response.

Regulation 4.1 Current wording

(a) Approval by the Conference of the programme of work and corresponding regular budget shall constitute an authorization to the Director General to incur obligations and to make payments for the

Regulation 4.1 Proposed new wording for a new paragraph (d)

“[...]

purposes thus approved and within the appropriations approved therefor;

(b) Approval by the Conference of the proposals and corresponding operational budget shall constitute an authorization to the Director General to incur obligations and to make payments for the purpose of implementing the activities indicated in the operational budget and within the financial resources available for the operational budget;

(c) The Director General is expected at any time to monitor income and expenditure under the operational budget and shall take the initiative to reduce expenditure as soon as it becomes clear that actual income will not be sufficient to support expected expenditure levels.

(d) The Director General may increase expenditure under the operational budget commensurate with the actual income received.”

III. Action required of the Committee

15. The Committee may wish to propose to the Industrial Development Board the adoption of the following draft decision:

“The Industrial Development Board:

(a) Takes note of document IDB.51/9;

(b) Recommends to the General Conference the approval of the revisions to the Financial Regulations 4.1 and 4.3 as per the text proposed below:

Regulation 4.1 [Proposed changes to the existing wording for a new paragraph (d)]

[...]

(d) The Director General may increase expenditure under the operational budget commensurate with the actual income received.

Regulation 4.3 [proposed new wording for paragraph (b)]

[...]

(b) The Director General, within the amounts approved by the General Conference for the regular and operational budgets, may make transfers between major objects of expenditure of up to 10 per cent of the initially appropriated regular or operational budget amounts from which the transfers are made. The Director General shall inform in writing the General Conference through the Programme and Budget Committee and the Industrial Development Board, at the session following such action, of the details and reasons for these transfers.”