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Programme and Budget Committee
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Item 7 of the provisional agenda
Report by the informal working group on
Programme and Budget Committee-related
issues

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Report by the Co-Chairs

Further to the update on the report of the informal working group on Programme and Budget Committee-related issues (IWG) contained in document IDB.51/CRP.3, the present document provides an update on the meetings of the IWG since the fifty-first session of the Industrial Development Board. Member States can access all relevant presentations, background documents and summary notes provided to the working group through the UNIDO Member States extranet at extranet.unido.org.

I. Overview of meetings: dates and topics

1. Since 28 June 2023, the informal working group on Programme and Budget Committee-related issues (IWG) held five substantive meetings as follows:

- (a) 15 September 2023, on the date and process to be followed for the External Auditor candidates' forum, arrears by former Member States and contributions from non-Members;
- (b) 2 October 2023, on investment and upgrading information technology (IT) and digitalization tools, and the Innovation and Transformation Fund;
- (c) 20 October 2023, on the forum for candidates for the post of External Auditor;
- (d) 9 February 2024, on unutilized balances of appropriations; and
- (e) 12 March 2024, on the informal introductory session on budgetary issues.

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II. Discussion on the External Auditor candidates' forum, arrears by former Member States and contributions from non-Members (15 September 2023)

2. The Secretariat reminded participants that the second Co-Chair should now be nominated from the countries in List B and called on all Members of that list to consult and inform the Secretariat of their nomination.
3. The Secretariat delivered a presentation on the date and structure of the candidates' forum for the appointment of the External Auditor.
4. In the ensuing question and answer session, a number of points were raised and clarified. These centred on the required simple majority of the Members present and voting at the General Conference for the election of the External Auditor. The Secretariat reminded that ballots filled out with anything but the name of one of the candidates would be considered as invalid and would not count as present and voting.
5. Furthermore, the Secretariat informed the Members that it would be in touch with the Permanent Missions representing the individual candidates, to provide them with detailed information on the forum and to coordinate the candidates' participation and nomination of an alternate.
6. Possible dates for the forum were presented with a note that a final decision would be taken in coordination with the Co-Chairs and that it would be communicated to all Member States.
7. The Secretariat presented an outline on the arrears of former Member States. In the ensuing discussion, the Secretariat clarified a number of points:
 - (a) In line with financial regulation 9.4, UNIDO Member States, following the example of other agencies of the United Nations system, could decide for a full or partial write-off of the arrears to be considered by the Programme and Budget Committee, recommended by the Industrial Development Board and decided by the General Conference;
 - (b) While no follow-up seems to have taken place with the constituent republics of the former Yugoslavia, in the past more than 20 years discussion with the United States of America has continued with varying degrees of engagement and positive feedback. However, the issues of congressional approval for the repayment of the outstanding debt to the Organization and the positive engagement with the United States Agency for International Development were two different matters.
8. The Co-Chair noted the ongoing interest in this matter and requested to include this issue into the schedule of the IWG in future.
9. Turning to the issue of contributions from non-Member States, the Secretariat presented an overview of the contributions provided to the United Nations by members of the United Nations, not members of UNIDO. More information was requested on this topic, specifically an overview of the contributions provided in terms of project and programme funding, as well as details on the implementation of UNIDO's full cost recovery initiative. Furthermore, one participating Member State noted the intention to prepare a political statement for endorsement by the Member States, in which the importance of supporting UNIDO as Member States and through regular and foreseeable assessed contributions would be highlighted, as opposed to the use of UNIDO as an implementing agency and providing it with fluctuating and unpredictable voluntary contributions.
10. On the latter proposal, the Co-Chair requested that this could be taken up at the upcoming IWG meeting, while the Secretariat noted that it could be brought up at the pre-session informal consultations in preparation for upcoming session of the General Conference, if the intention was to have the text adopted therein.
11. Turning to the preliminary schedule of the IWG for the fourth quarter of 2023, the Secretariat underlined the very full schedule of Vienna-based organizations in this

period. Nonetheless, a draft schedule of meetings was presented and the Co-Chair asked for the issue of full cost recovery to be added to the agenda for the sixtieth meeting of the IWG.

III. Discussion on investment and upgrading information technology and digitalization tools, and the Innovation and Transformation Fund (2 October 2023)

12. The Secretariat reminded Member States of the outstanding nomination of a Co-Chair from List B and called on all members of that list to consult and inform the Secretariat of their nomination.

13. The Chief of Information Technology and Digitalization Services, Mr. Jason Slater, delivered a presentation on investment in and upgrading of IT and digitalization tools.

14. In the ensuing discussion, the following points were raised and clarified:

(a) The size of the IT workforce, plans concerning the UNIDO intranet and Open Data Platform, and UNIDO's utilization of artificial intelligence (AI);

(b) In response, an overview of staffing levels was provided indicating that there currently were 16 staff and 25 IT personnel in total, with a predominant reliance on short-term consultants. A recent reduction in the workforce was highlighted, which was due to retirements and departures;

(c) The ongoing transitions of the services provided by the intranet to Microsoft 365 was outlined. It was noted that the Open Data Platform relied on legacy open-sourced software and would, therefore, shortly no longer be available. UNIDO's commitment to enhancing results reporting was underlined, while the challenges associated with data sharing were acknowledged. In this regard, Member States were assured that the current and envisaged use of Chat GPT was limited to a UNIDO-internal web browser, which would safeguard the privacy of the data input;

(d) A participating Member State acknowledged the progress reported in the External Auditor's report, while seeking assurance about the implementation of the outstanding recommendations;

(e) While underlining that, indeed, several of the recommendations made by the External Auditor had already been addressed, it was noted that particularly those related to Systems Applications and Products (SAP) were currently being tackled, with an external expert having been engaged for this task. Specifically, the issue of "authorizations" within the SAP system were being addressed, following the latest round of organizational restructuring;

(f) One participant noted that there had been a large volume of recent hirings and questioned why those did not include the Information Technology and Digitalization Services. Furthermore, they enquired about possible success stories coming out of the digitization drive, that could be shared with Member States and for an update on the IT infrastructure in field offices;

(g) It was noted that the staffing structure foreseen in the budget and the reliance on fast-changing technical expertise meant that Information Technology and Digitalization Services currently relied heavily on monthly short-term contracts, cost-free experts and individual service agreements. It was envisaged that there were one or two staff recruitments in the coming months based on the funds available;

(h) Regarding possible success stories, the investments in robotic process automation were highlighted, which had resulted in a significant return on investment, with a high number of working hours freed up that have been included in the programme and budgets for the biennium 2024–2025;

(i) It was also noted that the implementation of a Microsoft cloud-based email and file-sharing infrastructure has already been made available for the entire field network to improve connectivity and collaboration with headquarters.

15. Mr. Giuseppe De Simone, Strategic Planning Officer, delivered a presentation on the Innovation and Transformation Fund (ITF). In the ensuing discussion, the Secretariat clarified a number of points:

(a) Further to a request for more information on the nature of the proposed investments to be made through the ITF, it was noted that a round table event was planned, to provide more insights into its functioning, proposed activities and benefits;

(b) A participating Member State underlined the importance of having a discussion on this topic and explanation provided ahead of the approval of the Organization's programme and budgets. While this was acknowledged, it was also underlined that the rebranding of the Special Account of Voluntary Contributions for Core Activities to the ITF did not alter its legal or formal aspects. It was noted that the rebranding aimed at strengthening the transparency and reporting of the Fund, as well as improving its capacity to attract funding.

16. The Secretariat encouraged Member States to engage in the two initiatives and to financially support them to the extent possible.

17. Under other business, the Secretariat reminded participants of the upcoming meeting on 20 October, which would feature the candidates' forum for the post of External Auditor of UNIDO. While the Secretariat had already reached out actively multiple times on this matter, Member States were invited to reach out to pmo@unido.org in case of outstanding questions.

IV. Forum for candidates for the post of External Auditor (20 October 2023)

18. Member States nominating a candidate for the post of External Auditor were given the opportunity to present their candidacy to the IWG. The relevant procedures for the presentation of candidates were communicated to the candidates in advance of the meeting. Among the six standing nominees for the post of External Auditor, the following candidates, or designated representatives speaking on their behalf, as well as their audit team members took part:

Mr. Ali Hassan Rashwan	Undersecretary at the Accountability State Authority of Egypt
Ms. Nancy Gathungu	Auditor General of Kenya
Mr. Jaehae Choe	Chairman of the Board of Audit and Inspection of the Republic of Korea
Ms. Enriqueta Chicano Jávega	President of the Court of Audit of Spain
Mr. Metin Yener	President of the Court of Accounts of Türkiye

19. Each candidate, or the designated representative, delivered a presentation addressing guiding questions provided in advance by the IWG Co-Chair. Thereafter, each of the five Regional Groups raised a question to all candidates or designated representatives. In closing, the candidates also delivered brief concluding remarks. The presentations are uploaded on the UNIDO extranet.

20. The Co-Chair reminded Member States of the pending nominations for a Co-Chair from List B, inviting all Member States of that list to engage in consultations and inform the Secretariat of their nominations forthwith.

V. Discussion on unutilized balances of appropriations (9 February 2024)

21. The Deputy to the Director General and Managing Director of Corporate Services and Operations, Mr. Yuko Yasunaga, thanked Member States for their support in 2023 in achieving an 11.25 per cent increase in regular budget approval. The Managing Director noted that discussions regarding vertical flexibility are ongoing and expressed hope that consensus will be reached promptly. Additionally, the Managing Director appealed to the Member States for the timely, in full payment of assessed contributions, emphasizing that delayed payments of assessed contributions hinder the implementation of UNIDO programmes and lead to the accumulation of unutilized balances of appropriations (UBs).

22. The Director of Financial Services, Ms. Meemi Taalas, delivered a presentation on UBs.

23. In the ensuing question and answer session, the following points were raised and clarified:

(a) The Managing Director of Corporate Services and Operations recognized the point raised by a Member State that numerous Members may not possess expertise on UNIDO's budget structure and associated terminologies, thus, based on the approval of the Co-Chairs, expressed readiness to conduct introductory sessions to demonstrate and to explain these points. This introductory session shall explain the different components and elements of the funding sources contributing to UNIDO's activities, as well as financial regulations and rules. The Director of Financial Services also expressed willingness to engage bilaterally in discussions regarding this matter;

(b) In addressing the query posed by a Member State on knowledge if other United Nations agencies encounter similar challenges regarding unutilized balances, the Director of Financial Services stated that other United Nations agencies do not face similar issues with the system of unutilized balances. The Director underscored expertise in cash management and liquidity, noting that other United Nations agencies face challenges with liquidity due to late payments and/or issues with payments of assessed contributions;

(c) A Member State took note of the recurring pattern in payment of assessed contributions, which picks up at the end of the year, thus proposed to Member States a restructuring of financial rules to take advantage of this pattern, as well as to address the persistent concern regarding unutilized balances. According to the Director of Financial Services, changes in the treatment of unspent balances or adopting alternative methods, may necessitate an adjustment of financial regulations, that are approved based on Member States' consensus;

(d) The Director of Financial Services noted the possibility of utilizing assessed contributions, even when paid towards the end of the biennium, for the subsequent year's expenditures. While most of the assessed contributions are typically paid midway through the year, a more predictable contribution schedule would improve financial planning. Given the current economic situation and heightened inflation rates, only 75 per cent of the regular budget allotment is being issued at this juncture in the fiscal year;

(e) The Secretariat expressed interest in the proposal by a Member State of alternative regulations on the renouncement of unutilized balances, such as automatically renouncing UBs unless indicated by the respective Member State;

(f) A Member State has requested additional information regarding assessed contributions, including their enforcement, and has asked the Secretariat to present options for discussion among Member States. The Director of Financial Services assured that the Secretariat will provide these options to Member States, particularly

focusing on reducing unspent balances and optimizing the utilization of assessed contributions;

(g) Another participating Member State inquired about the strategies employed by other organizations to minimize unutilized balances, aiming to enhance financial efficiency. In response, the Director of Financial Services referenced the utilization of payment plans in collecting (arrears) assessed contributions from previous periods, a practice observed in other organizations. Furthermore, the Director reiterated willingness to develop a proposal outlining methods to ensure low level of unspent balances.

24. The Secretariat presented the draft schedule of the IWG for the first half of 2024 and noted that it has reviewed the mandates received over the years from the Programme and Budget Committee, Industrial Development Board and General Conference. These mandates have outlined topics for discussion within the IWG, thus have been incorporated into the schedule.

25. The Secretariat also extended an invitation to the Member States to suggest additional topics for inclusion in the schedule. The schedule shall be reviewed during the following meeting of the IWG, which conventionally occurs at 6-month intervals.

VI. Informal introductory session on budgetary issues (12 March 2024)

26. The Deputy to the Director General and Managing Director of the Directorate of Corporate Services and Operations, Mr. Yuko Yasunaga, delivered a presentation on the basics of UNIDO's programme and budgets. The presentation covered the major components of UNIDO's budget, the regular and operational budgets, the budget for the biennium 2024–2025, assessed contributions, voluntary contributions, UBS, a review of the regular budget for the biennium 2022–2023 and the budget implementation flexibility.

27. In the ensuing question and answer session, the following points were raised and clarified:

(a) After being asked by the Co-Chair how vertical flexibility assists in planning UNIDO's activities, Mr. Yasunaga described how, due to COVID-19, official travels were not possible. Therefore, the budget allocated for travel expenses remained unused. If UNIDO, however, is authorized to use the unspent budget with vertical flexibility, this can be converted for hiring consultants or for the improvement of information and communications technology equipment and software, for example. Moreover, the needs of Member States can be reflected such as through the promotion of green hydrogen or promotion of industrial development in the food value chain industry, and other urgent activities. UNIDO will be able to utilize the unused portion of the budget effectively;

(b) Mr. Yasunaga urged Member States to consider vertical flexibility;

(c) A Member State requested additional information on horizontal budget flexibility that would allow the Director General to increase the operational budget up to €60 million as decided in GC.20/Dec.14 and its difference from vertical budget flexibility. Mr. Yasunaga clarified that vertical flexibility means that funds can be moved from one object of expenditure group to another, while the horizontal flexibility means that the operational budget can be increased to up to €60 million by removing a cap of budgeted number if UNIDO receives enough voluntary contributions to do so. The potential increase in the operational budget would be financed through these additional voluntary contributions;

(d) A Member State informed the session that the internal legal consultations about budget flexibility raised during the twentieth session of the General Conference are still ongoing.

VII. Action required of the Committee

28. The Committee may wish to take note of the information contained in the present document.
