



**Industrial Development Board**  
Fifty-third session  
Vienna, 30 June–3 July 2025

**Programme and Budget Committee**  
Forty-first session  
Vienna, 13–15 May 2025  
Item 10 of the provisional agenda  
**Budget implementation flexibility (vertical and horizontal)**

## **Budget implementation flexibility**

### **Report by the Director General**

The present document provides a report by the Director General on the use of horizontal budget implementation flexibility during the financial year 2024. It also contains proposals to allow the Director General to, on an interim basis, make transfers between major objects of expenditure (vertical flexibility), and to regularize horizontal budget implementation flexibility, starting with the biennium 2026–2027.

## **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](#), highlighted UNIDO's rigid budget management framework and noted that it leads to an increased focus on budget execution, thus preventing opportunities to improve efficiency and search for savings. These comments have been echoed by the Independent Oversight Advisory Committee.
2. As indicated in document [IDB.51/9-PBC.39/9](#), budgetary flexibility is already an established practice at other organizations of the United Nations system that apply provisions for the transfer of appropriations within the approved programmes or result areas.
3. Allowing flexible transfers between major objects of expenditure within approved result areas would have helped the Organization to respond more effectively to the increased requests for support from Member States during the COVID-19 pandemic, when travel was restricted, by permitting the transfer of funds needed, for example, for consultancies or to cover increased information technology costs resulting from the shift to virtual platforms. In 2022, soaring energy prices and high inflation created new challenges for UNIDO operations, which extended further into 2023 and beyond. While the inflation component of the budget decision for the 2024–

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2025 biennium has partially shielded UNIDO from rising global inflation, cumulative inflation in the European Economic Area is expected to average almost 25 per cent over the five-year period 2021–2025. This situation places a heavy burden on UNIDO’s resource base and necessitates innovative and alternative means and tools to achieve efficiency and savings.

4. UNIDO’s budgets are segregated by source of funding, result area and major object of expenditure. This leads to a strict compartmentalization of resources, which prevents 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 in indirect costs, 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. Against this background, the Secretariat requested enhanced budgetary flexibility, both horizontally, to allow immediate reinvestment of additional programme support income above the amount approved in the Programme and Budgets 2024–2025 to cover new overheads, and vertically, with respect to the regular budget, to allow transfers between major objects of expenditure within the approved results areas, to continue its results-based budget implementation and to identify and achieve further savings and efficiencies to deliver more.

6. Following a series of discussions with and among the Member States, the twentieth session of the General Conference, through the thirty-ninth session of the Programme and Budget Committee and the fifty-first session of the Industrial Development Board, considered a proposal by the Director General on budget implementation flexibility for the biennium 2024–2025 (documents IDB.51/9 and IDB.51/CRP.10 refer). The Secretariat appreciates the cooperation and support shown by the Member States during these discussions, which culminated in the approval, by the twentieth session of the General Conference, of the following interim horizontal and vertical flexibility arrangements:

- (i) *Horizontal flexibility*: By decision GC.20/Dec.14, the Conference “took an interim decision for the biennium 2024–2025, to allow the Director General to increase expenditure on technical cooperation to promote inclusive and sustainable industrial development up to €60 million of the operational budget commensurate with the actual income received. 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 increased expenditures.”
- (ii) *Vertical flexibility*: By the same decision, the General Conference “requested Member States to continue negotiating through the fortieth session of the Committee and the fifty-second session of the Board on the interim decision, on a time-bound basis for the biennium 2024–2025, to allow the Director General to make, within the amounts approved by the General Conference for the regular budget, transfers between the major objects of expenditure within result areas up to 10 per cent of the initially appropriated regular budget amounts from which the transfers are made, and authorized the Industrial Development Board at its fifty-second session to decide on this matter for the biennium 2024–2025.”

## **II. Report by the Director General on the practical use of horizontal flexibility**

7. As of 31 December 2024, horizontal flexibility has been utilized on two occasions in the context of the implementation of the Programme and Budgets 2024–2025, resulting in the release of additional resources in the amount of €3.3 million to UNIDO’s operational budget.

8. Based on a detailed analysis of the forecasted delivery of technical cooperation activities, coupled with the projections of the income expected from full cost recovery and interest generating activities, the first application of the horizontal flexibility took place in July 2024, releasing €2.5 million to the operational budget.
9. Owing to the healthy performance of UNIDO’s investment portfolio, an additional amount of €0.8 million was released to the operational budget in December 2024, bringing the total additional funds released through horizontal flexibility in 2024 to €3.3 million. These funds augmented UNIDO’s capacity to deliver technical cooperation.
10. Based on the overarching principle of augmenting UNIDO’s capacity to implement technical cooperation, additional funds were allocated to areas generating income through full cost recovery to areas most in need of funds and to those directly supporting technical cooperation delivery. Thus, the funds were directed to promote inclusive and sustainable industrial development while addressing both enabling and delivery efforts.
11. In light of the lessons learned in recent years, UNIDO would benefit from greater budgetary flexibility to allow for the immediate re-investment of programme support income in covering new overheads. This would also enable transfers between major objects of expenditure within approved result areas to address emerging needs, and greater efficiency in meeting Member States’ requests.
12. To support the reform of the Organization efforts and commitment to delivering results, the Secretariat continues to seek greater budgetary flexibility from its Member States. Concerted efforts will continue to increase the recovery of support costs incurred in the implementation of technical cooperation activities.

### III. Proposal by the Director General

13. To continue on the path of results-based budget implementation, the Director General hereby submits two proposals for consideration and decision by Member States, to facilitate further budget implementation flexibility:
  - (i) Regularization of horizontal flexibility starting with the biennium 2026–2027, thereby allowing for immediate re-investment of income to cover new overheads, including augmenting the capacity of the UNIDO workforce during temporary peaks in workload; and
  - (ii) Application of vertical flexibility, between major objects of expenditure, as an interim measure and subject to further review.
14. To regularize horizontal flexibility, the Director General proposes the revision of Financial Regulation 4.1, as follows:

**Regulation 4.1 [Current wording]**

**Regulation 4.1 [Proposed new paragraph (d)]**

(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 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.”

15. To continue on the path of results-based budget implementation, the Director General proposes, for consideration and decision by Member States, the application of vertical flexibility between major objects of expenditure as an interim decision for the period 2025–2027. Such flexibility on an interim basis would not require the revision of the Financial Regulations.

16. Should Member States decide to formalize the application of vertical flexibility after the interim decision expires, Financial Regulation 4.3 would need to be revised, as follows:

**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

**Regulation 4.3 [Proposed revision of 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;

[...]”

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.

#### IV. Action required of the Committee

17. 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.53/9](#);

(b) Recommends to the General Conference the approval of the revision to Financial Regulation 4.1 as per the text below:

**Regulation 4.1 [New paragraph (d)]**

“[...]

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

[...]”

(c) Recommends to the General Conference as an interim decision for the period 2025–2027 to allow the Director General, within the amounts approved by the General Conference for the regular budget and the operational budget, to 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.”

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