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## Industrial Development Board

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### Activities of the Joint Inspection Unit

## Activities of the Joint Inspection Unit

### Review of management and administration in UNIDO

#### *Addendum*

The present document contains the report by the Joint Inspection Unit (JIU) entitled "Review of management and administration in the United Nations Industrial Development Organization (UNIDO)" as issued under symbol JIU/REP/2017/1. The report is herewith submitted to the Board as an annex to the present document.

With information note No. 25 dated 3 April 2017, Permanent Missions were informed of the issuance of the annexed JIU report on the review of management and administration of UNIDO. The comments of the Director General will be submitted to the Board in a document bearing the symbol IDB.45/14/Add.2.

For reasons of economy, this document has not been printed. Delegates are kindly requested to bring their copies of documents to meetings.





**REVIEW OF MANAGEMENT AND ADMINISTRATION IN  
THE UNITED NATIONS INDUSTRIAL DEVELOPMENT  
ORGANIZATION (UNIDO)**

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**Joint Inspection Unit**

**Geneva 2017**



**United Nations**



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## EXECUTIVE SUMMARY

### Review of management and administration in the United Nations Industrial Development Organization (UNIDO) JIU/REP/2017/1

The present review of management and administration in the United Nations Industrial Development Organization (UNIDO) is one of a series of reviews of participating organizations undertaken by the Joint Inspection Unit. The Unit conducted its first review of management and administration in UNIDO in 2003 to assess internal reforms conducted in the 1990s and early 2000s (JIU/REP/2003/1). In the present report, the Inspectors made 10 formal recommendations: 7 addressed to the Director General, focusing on suggestions for improvement in management areas, and 3 addressed to the governing bodies. The formal recommendations are complemented by informal recommendations (appearing in bold in the narrative), which are additional suggestions for reinforcing the management framework and related practices at UNIDO.

UNIDO is a headquarters-based specialized agency with a limited field presence. Its mandate embeds the Organization in the United Nations development system with the primary objective to promote and accelerate industrial development in the developing countries. The UNIDO Constitution spells out the Organization's dual role to serve as a global forum for industrial policy debates and as a channel for technical assistance in industrial development. Throughout the years, UNIDO has faced a series of political and financial challenges and has undergone successive internal reforms, organizational downsizing and programmatic realignment. At the time of the present review, the Organization continued to face a number of challenges.

In recent years, the Organization's finances have exhibited two parallel trends: a decline in the regular budget and a rise in earmarked voluntary contributions. This has produced an organizational model in which the technical assistance function is predominant. The resources to finance the management structures through the regular budget have been shrinking and are often seen as diverting funds from technical assistance programmes. The financial strain restricts the Organization's ability to commit resources to core functions, and leads to the prioritization of technical cooperation at the expense of activities such as research and standard-setting. This model carries risks in terms of governance, financial sustainability and management capacity.

As the United Nations development system enters the implementation stage of the 2030 Agenda for Sustainable Development, **recommendation 1** is aimed at promoting full ownership by the Organization's membership of the strategies developed by the UNIDO secretariat for the achievement of the Sustainable Development Goals, in particular Goal 9 (industry, innovation and infrastructure). This can help ensure that the Organization's role is well defined and the necessary resources are provided to attain its objectives in a challenging and dynamic international environment.

In the management area, the Inspectors recommend formalizing the recently introduced internal senior management briefings, with a view to strengthening the corporate-wide coordination and information-sharing functions in order to support the Executive Board in the management of the Organization (**recommendation 2**).

The financial situation of UNIDO has been the focus of concern for many years. The situation arising from the withdrawal of a number of countries from its membership has exacerbated the constraints on UNIDO management. The governing bodies are invited to ensure that the core functions of the Organization are sufficiently funded so as to enable UNIDO to carry out all its mandates as a United Nations specialized agency in a consistent and sustainable manner (**recommendation 3**). Building on existing initiatives, the Director General is

advised to integrate various potential measures into a comprehensive document for the consideration of the governing bodies addressing all budget resources (regular budget, operational budget and voluntary contributions) to promote a holistic approach (**recommendation 4**).

The Inspectors suggest expanding the existing UNIDO risk management approach into a comprehensive risk management strategy addressing all major risks faced by the Organization and providing for appropriate mitigation measures, to be updated on a regular basis (**recommendation 5**).

Three recommendations are focused on various aspects of human resources management. **Recommendation 6** is aimed at finalizing the revised Human Resources Management Framework. In **recommendations 7 and 8**, the Inspectors suggest improving geographical diversity and gender balance in the workforce through the elaboration of action plans containing monitoring measures, together with regular reporting to the governing bodies.

To strengthen information technology and information management, in **recommendation 9** the Inspectors call for the issuance of an updated information technology and information management policy, and the setting up of an organization-wide working group to assist the Executive Board in overseeing the implementation of the policy and in providing strategic direction in this area.

In **recommendation 10**, the Inspectors call for the General Conference to articulate the Organization's strategic approach to its field presence in the context of the implementation of the 2030 Agenda. This would ensure that the role of the field presence is better defined from the strategic and operational points of view.

### **Recommendations**

#### **Recommendation 1**

**The General Conference is invited to examine at its seventeenth session in 2017 the strategies proposed by the Director General to support the achievement of the Sustainable Development Goals, with special emphasis on Goal 9, to ensure that the role of the Organization is well defined, and to provide necessary resources through the successive programme and budgets for the implementation of those strategies.**

#### **Recommendation 2**

**The Director General should consider formalizing the internal senior management briefings with a view to strengthening the corporate-wide coordination and information-sharing functions in order to support the Executive Board in the management of the Organization.**

#### **Recommendation 3**

**The Industrial Development Board should ensure that sufficient regular budget resources are provided to fund core functions of the Organization so as to enable it to carry out all its mandates as a specialized agency of the United Nations in a consistent and sustainable manner, in line with the provisions of the Lima Declaration. In this context, the Board, in accordance with its decision IDB.44/Dec.8, may also invite UNIDO member States to increase their contributions to the special accounts created by the secretariat.**

#### **Recommendation 4**

**The Director General should present to the Industrial Development Board at its forty-sixth session in 2018 a comprehensive report aimed at improving the**



financial situation of the Organization, integrating proposals on the main categories of its resources (regular budget, operational budget and voluntary contributions).

#### **Recommendation 5**

The Director General should expand the risk management strategy presented at the forty-fourth session of the Industrial Development Board to comprehensively address all major risks faced by the Organization with appropriate mitigation measures, and submit it to the Board for endorsement at its forty-sixth session in 2018.

#### **Recommendation 6**

The Director General should finalize the revised Human Resources Management Framework and issue it as a Director General's bulletin by the end of 2017. Relevant policies and administrative instructions should be promulgated or updated accordingly.

#### **Recommendation 7**

The Director General should develop an action plan, containing monitoring measures, aimed at improving the geographical diversity of the UNIDO workforce, and report regularly to the Industrial Development Board on its implementation, starting at its forty-sixth session in 2018.

#### **Recommendation 8**

The Director General should develop an action plan, containing monitoring measures, aimed at improving the gender balance of the UNIDO workforce that would complement the Policy on Gender Equality and the Empowerment of Women, and report regularly to the Industrial Development Board on its implementation, starting at its forty-sixth session in 2018.

#### **Recommendation 9**

The Director General should issue an updated information technology and information management policy, and set up an organization-wide working group to assist the Executive Board in overseeing the implementation of the policy and in providing strategic direction in this area.

#### **Recommendation 10**

The General Conference is invited to adopt a comprehensive vision of the UNIDO field presence as an integral part of the Organization's role in implementing the 2030 Agenda, including a set of criteria to assess its effectiveness.



## CONTENTS

	<b>EXECUTIVE SUMMARY.....</b>	<i>Page</i> iii
	<b>ABBREVIATIONS.....</b>	viii
<i>Chapter</i>		
<b>I.</b>	<b>INTRODUCTION.....</b>	1
	A. Objectives, scope and methodology.....	1
	B. Background.....	2
<b>II.</b>	<b>GOVERNANCE.....</b>	5
<b>III.</b>	<b>MANAGEMENT.....</b>	9
	A. Executive management.....	9
	B. General management and administration.....	12
<b>IV.</b>	<b>FINANCIAL FRAMEWORK.....</b>	16
<b>V.</b>	<b>STRATEGIC PLANNING AND RISK MANAGEMENT.....</b>	23
	A. Strategic planning and results-based management.....	23
	B. Risk management.....	25
<b>VI.</b>	<b>HUMAN RESOURCES MANAGEMENT.....</b>	27
	A. Workforce.....	28
	B. Performance management and learning.....	33
	C. Staff-management relations.....	35
<b>VII.</b>	<b>INFORMATION AND COMMUNICATIONS TECHNOLOGY AND INFORMATION MANAGEMENT.....</b>	37
<b>VIII.</b>	<b>OVERSIGHT FRAMEWORK.....</b>	40
	A. Office of Internal Oversight and Ethics.....	40
	B. Office of Independent Evaluation and Quality Monitoring.....	42
	C. Independent Audit Advisory Committee.....	44
	D. External auditor.....	44
	E. Joint Inspection Unit.....	45
<b>IX.</b>	<b>FIELD PRESENCE.....</b>	46

## ANNEXES

<b>I.</b>	Governance.....	50
<b>II.</b>	Organizational chart (2016).....	51
<b>III.</b>	Financial data.....	52
<b>IV.</b>	Human resources.....	53
<b>V.</b>	Technical cooperation.....	55
<b>VI.</b>	Joint Inspection Unit surveys.....	56
<b>VII.</b>	Overview of actions to be taken by participating organizations on the recommendations of the Joint Inspection Unit (JIU/REP/2017/1).....	58

## ABBREVIATIONS

EFR	External Relations and Field Representation
ERP	Enterprise resource planning
EVQ	Office of Independent Evaluation and Quality Monitoring
HRMF	Human Resources Management Framework
ICT	Information and communications technology
IOE	Office of Internal Oversight and Ethics
IRPF	Integrated results and performance framework
ISA	Individual service agreement
ISID	Inclusive and sustainable industrial development
JIU	Joint Inspection Unit
MCIF	Major Capital Investment Fund
MTPF	Medium-term programme framework
PCOR	Programme for Change and Organizational Renewal
PPS	Policy and Programme Support
PSC	Programme Support Costs
PTC	Programme Development and Technical Cooperation
SAVCCA	Special Account of Voluntary Contributions for Core Activities
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization

## I. INTRODUCTION

1. As part of its programme of work for 2016, the Joint Inspection Unit (JIU) conducted a review of management and administration in the United Nations Industrial Development Organization (UNIDO) as one of a series of similar reviews of United Nations system organizations included in the revised strategic framework of the Unit.<sup>1</sup> JIU had previously reviewed UNIDO, in 2003, to assess the management reform measures conducted in the 1990s and early 2000s, and had provided 23 recommendations for improvements in the Organization's management and administration practices.<sup>2</sup> The present report is a fully fledged management and administration review; it includes references to previous recommendations and the measures taken for their implementation where appropriate, showing improvements in certain areas and highlighting remaining areas of concern or new challenges.

### A. Objectives, scope and methodology

2. The main objective of the report is to provide an independent review of the regulatory frameworks and related practices concerning the management and administration of UNIDO. It was designed to identify opportunities for improvement in the areas of governance, executive management, general management and administration, strategic planning, financial and human resources management, information and communications technology management and oversight mechanisms. Substantive dimensions of the work carried out by UNIDO in its research and normative functions and its technical cooperation activities are not included in the scope, although they are addressed to the extent that they have an impact on organizational management.

3. The present review was conducted at a difficult time for UNIDO, as it continues to face significant financial and organizational challenges, largely as a consequence of the sharp decline in its regular budget, especially after the withdrawal of a number of countries from its membership. The UNIDO secretariat operates under major constraints that have direct and indirect impacts on management areas and impose the need for strict efficiency measures. With this situation in mind, the Inspectors suggested recommendations that could help introduce improvements in various management areas. UNIDO management welcomed the review as an opportunity for an independent examination of the Organization.

4. In accordance with the JIU internal standards, guidelines and working procedures, the Inspectors used a range of evaluation techniques to triangulate their findings and issue well-supported conclusions and recommendations. They analysed information and data available as of December 2016, complemented by comments and additional information from UNIDO management received during the finalization of the report and taken into account where relevant. In the report, the financial information from UNIDO is presented in euros or United States dollars for different components of its budgeted income and expenditures, according to how the secretariat presents the information in its budget documents.

5. The methodology used in the preparation of the present report included:

(a) A desk review and analysis of the documentation of the governing bodies and of the secretariat (Director General's bulletins, administrative instructions, internal memorandums, minutes and summary records of management committees);

(b) Interviews with the Director General and the three Managing Directors, secretariat officials representing the corporate and support services functions, managers of various organizational units, staff members, both at headquarters and in the field offices, and holders of individual service agreements (ISA). These inputs complemented information received through the JIU corporate questionnaire completed by the UNIDO secretariat;

(c) Views of member States, which were sought via a series of interviews with delegates to the governing bodies and through two separate online surveys addressed to the members of the Industrial Development Board and, subsequently, to the members of the General Conference;

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<sup>1</sup> A/66/34, annex I.

<sup>2</sup> JIU/REP/2003/1: Review of management and administration in the United Nations Industrial Development Organization.

(d) Interviews with staff representatives, supplemented by inputs from staff and other categories of the workforce, through JIU interviews and online surveys;

(e) Inputs from UNIDO partners and stakeholders in the United Nations system: officials in the Economic and Social Council, the Department of Economic and Social Affairs, the United Nations Development Programme (UNDP) and the Development Operations Coordination Office and representatives of institutional donors.

6. The report contains 10 formal recommendations: 3 addressed to the governing bodies and 7 addressed to the Director General. To facilitate the report's dissemination and the implementation and monitoring of the recommendations, annex VII contains a table that identifies those recommendations that require a decision by the legislative or governing bodies and those that can be acted upon by the Director General. **The formal recommendations are complemented by additional suggestions for reinforcing the management framework and related practices at UNIDO, with reference to the standards and good practices of the United Nations system; the informal recommendations appear in bold throughout the text.**

7. In accordance with the JIU statute, the present report was finalized after consultations among the Inspectors so as to test its conclusions and recommendations against the collective wisdom of the Unit. The Inspectors wish to express their appreciation to all who assisted them in the preparation of the report, in particular those who participated in the interviews and willingly shared their knowledge and expertise.

## B. Background

8. UNIDO evolved from the Centre for Industrial Development that was created within the United Nations Secretariat (Department of Economic and Social Affairs) by the Economic and Social Council early in the 1960s.<sup>3</sup> In its resolutions 2089 (XX) and 2152 (XXI), the General Assembly established UNIDO as an autonomous body to promote and accelerate the industrialization of the developing countries.<sup>4</sup> The Organization subsequently became a specialized agency of the United Nations in 1985.<sup>5</sup> It was founded on the premise of the important role of industrialization in development and the role of the United Nations system and other intergovernmental institutions in promoting development through industrialization.<sup>6</sup>

9. The Constitution of UNIDO was adopted in 1979 and entered into force in 1985. It spells out the primary objectives of the Organization as the promotion and acceleration of industrial development in the developing countries, through cooperation at the global, regional, national and sectoral level. Its article 2 further elaborates the functions of the Organization and its dual role to serve as a global forum for industrial policy debates and as a channel for technical assistance for industrial development. In the Lima Declaration, adopted by the General Conference in 2013, the member States reaffirmed their commitment to UNIDO as an Organization with a unique mandate to promote, dynamize and accelerate industrial development within the United Nations system, to provide services for the benefit of its member States and the global community, and recognized its critical contribution to industrial development.

10. The mandate embeds the Organization in the international development system. In recent years, UNIDO has embraced the concept of inclusive and sustainable industrial development (ISID), highlighting industrialization as a driver for development. Goal 9 of the 2030 Agenda for Sustainable Development is focused on building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation, which places industrialization as a core component of the development process and offers an opportunity for UNIDO to renew its role and relevance. Similarly, the African Union Agenda 2063, adopted by the Assembly of Heads of State and Government of the African Union, and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development placed emphasis on the need for sustainable industrialization and development.<sup>7</sup> The mandate of UNIDO was further reaffirmed by the General Assembly in its resolution 71/242 on industrial development cooperation adopted in December 2016.

<sup>3</sup> E/3476/Rev.1 and Economic and Social Council resolutions 751 (XXIX), 817 (XXXI) and 873 (XXXIII).

<sup>4</sup> General Assembly resolutions 2089 (XX) and 2152 (XXI).

<sup>5</sup> General Assembly resolution 40/180.

<sup>6</sup> Stephen Browne, *United Nations Industrial Development Organization: Industrial Solutions for a Sustainable Future* (New York, Routledge, 2012).

<sup>7</sup> General Assembly resolution 69/313, annex.

11. As a United Nations specialized agency, UNIDO's core activities include four enabling functions: (a) technical cooperation; (b) analytical and research functions and policy advisory services; (c) normative functions and standard-setting activities; and (d) convening and partnership functions for knowledge transfer, networking and industrial cooperation. UNIDO conducts applied research on and analysis of economic growth and industrial structural change, and disseminates its findings to the development community. Activities in this area include periodic statistical compilations specific to industrial development, the publishing of action-oriented knowledge products, such as its flagship Industrial Development Report, and the provision of applied training through the Organization's Institute for Capacity Development. UNIDO assists member States and their respective industries in complying with shared international standards and brings its expertise to bear on the development of new global standards, such as those of industrial energy efficiency and corporate social responsibility. UNIDO performs each of these functions, but most of its current activities fall into the category of technical cooperation, which has become critical with respect to contributions to its financial base.

12. Technical assistance activities are coordinated under the Organization's Programme Development and Technical Cooperation component. UNIDO management indicated that as at December 2016, UNIDO was implementing more than 800 projects, representing an overall portfolio of projects and programmes of \$503.5 million. Technical cooperation projects are categorized as contributing to one of the Organization's thematic priorities: (a) creating shared prosperity, (b) advancing economic competitiveness and (c) safeguarding the environment. To pursue these projects, UNIDO receives voluntary contributions from a range of development institutions and donor countries. Two of the Organization's largest contributing partners are the Global Environment Facility and the Multilateral Fund for the Implementation of the Montreal Protocol.

13. UNIDO recognizes that stakeholder engagement and building solid partnerships are necessary for achieving development results. In fulfilling its convening role, the Organization brings member States, the private sector, civil society and other partners together by holding events to exchange and disseminate knowledge and information, facilitate partnerships and forge common positions and action plans for inclusive and sustainable industrial development.

14. UNIDO is a headquarters-based organization with fewer than 650 regular staff and a field presence in 47 countries. In 2016 it celebrated its fiftieth anniversary. Throughout the past five decades it has faced a series of political and financial challenges and has strived to adapt to the changing environment through successive internal reforms, organizational downsizing and programmatic realignments. From 2010 to 2013, the Programme for Change and Organizational Renewal (PCOR) was carried out as a change management initiative in the secretariat; the focus was on business process reengineering through the introduction of an integrated enterprise resource planning (ERP) system to boost internal efficiency.

15. One of the most serious challenges for UNIDO was the withdrawal of a number of its member States. In the mid-1990s, three countries exited the Organization and eight more have quit since 2012.<sup>8</sup> This exacerbated the financial difficulties and raised some questions about the Organization's global reach.

16. The reduction in the Organization's regular budget resources and the expansion of technical assistance activities financed through voluntary contributions have resulted in an organizational model that has implications in terms of governance (alignment of activities with agreed priorities, role of member States), financial sustainability (reduced proportion of regular budget resources in the overall financial base) and management capacity. Nevertheless, the majority of member States interviewed and surveyed provided a positive assessment of the Organization's activities and performance, particularly in the area of technical cooperation.

17. Between 2005 and 2015, UNIDO was the subject of several external reviews, conducted by national or intergovernmental agencies and other stakeholders for whom it served as an implementing partner. The reviews focused on such aspects as assessing organizational efficiency and effectiveness and alignment with the national priorities of main donors. Conclusions drawn in the assessments varied significantly according to their focus and the time at which they were produced. Some were taken into consideration by the Inspectors where relevant.

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<sup>8</sup> Canada (1993), Australia and the United States of America (1997), Lithuania and the United Kingdom of Great Britain and Northern Ireland (2012), New Zealand (2013), France and Portugal (2014), Belgium (2015), Denmark and Greece (2016).

## II. GOVERNANCE

### *Governance framework*

18. As established under the Constitution, the governance structure of UNIDO is composed of three principal organs: the General Conference, the Industrial Development Board (the Board) and the secretariat. The Programme and Budget Committee (the Committee) acts as a subsidiary body of the Board. Member States have not established other permanent subsidiary organs, technical committees or working groups.

19. The General Conference is the highest legislative body, consisting of representatives of all member States (168 as at January 2017). It meets every two years to determine the guiding principles and policies of the Organization, considers reports of the Board and those of the Director General, approves the programme of work and the regular and operational budgets, adopts conventions or agreements on any matters within the Organization's competence and makes recommendations thereon. The General Conference appoints the Director General upon the recommendation of the Board.

20. The Industrial Development Board has 53 members, elected by the General Conference, and holds at least one session annually. Its main functions are to examine the progress on the implementation of the approved programme of work and corresponding regular and operational budgets as well as other decisions of the General Conference, to which it reports on its activities.

21. The Programme and Budget Committee consists of 27 members and meets once a year to assist the Board in the preparation and examination of the programme of work, the regular budget and the operational budget. The Committee also prepares the draft scale of assessments for regular budget expenditures. It reports to the Board on its activities and submits advice and proposals on financial matters at its discretion.

22. UNIDO introduced several cost-saving measures in recent years regarding the work of its policymaking organs. A significant streamlining effort was initiated in 2011, when member States agreed to reduce the number of Board sessions during non-General Conference years from two to one.<sup>9</sup> This measure helped to generate savings associated with conference management and documentation.

23. In terms of documentation, a four-page limit for documents presented by the secretariat to the governing bodies was introduced, with exceptions made for major policy documents (the annual report of the Director General, the medium-term programme framework, the programme and budgets document and the report of the external auditor). Apart from that, conference room papers available only in English are increasingly presented to the governing bodies to reduce official documentation. In order to cut expenditure and minimize the environmental impact through the digitization of conference materials, pre-session documents are distributed only electronically.<sup>10</sup> In line with relevant decisions of the governing bodies, the UNIDO secretariat no longer supplies written summary records in all six languages for the sessions of the Board and the General Conference, replacing them with digital recordings.<sup>11</sup>

24. The Inspectors welcome these innovations, provided the reports on the sessions of the governing bodies clearly reflect the decision-making process and ensure institutional memory. The measures have helped to substantively decrease the volume of documentation and number of pages, as shown in annex I. Consequently, translation and printing costs have declined. At an average cost estimated by UNIDO secretariat at €1,000 per page, these practices have led to savings of about €500,000 annually.

25. The present review has not detected major concerns among the main stakeholders with regard to the governance of the Organization. As shown in responses to the JIU surveys and interviews, representatives of member States and the secretariat considered the current framework commensurate to the size of the Organization and effective in delineating respective mandates and responsibilities in a way that avoids overlap and duplication among the governing bodies. The majority of the members of the Industrial Development

<sup>9</sup> Board decision IDB.39/Dec.7: Programme and budgets, 2012-2013.

<sup>10</sup> IDB.41/5/Add.1-PBC.29/5/Add.1: Programme and budgets, 2014-2015 (para. 12).

<sup>11</sup> Board decisions IDB.41/Dec.12: Programme and budgets, 2014-2015, paras. (j)-(l) and IDB.43/Dec.6: Programme and budgets, 2016-2017, paras. (n) and (o).



Board were satisfied with the working methods and procedures. Equally, they found the current governance framework adequate to provide guidance and oversight to the secretariat. However, the Inspectors believe that some governance issues may deserve closer attention. These issues are primarily related to how the current organizational model of UNIDO ensures a balanced approach to all the mandated functions and to the engagement of the membership in oversight of and guidance for the secretariat.

### *Balance between mandated functions*

26. Article 2 of the Constitution elaborates the dual role of the Organization as a global forum for industrialization policy debates and standard-setting and as a channel for technical assistance for industrial development. Over the years, the Organization's normative role, its function as a platform for international dialogue on industrialization and its research activity have been declining in parallel with the reduction of its regular budget. The increase in volume of technical cooperation activities has resulted in the predominance of technical assistance over the other mandated functions. In 2013, the General Conference acknowledged in the Lima Declaration that technical cooperation had evolved into a primary operative function of the Organization.

**Table 1: Opinion of members of the Industrial Development Board on the types of services provided by the Organization to achieve its long-term objectives (percentage of respondents)**

	Very good	Good	Average	Poor	Very poor
Technical cooperation activities to build national capacity	20.8	62.5	16.7	0.0	0.0
Research, analytical and political advisory services to support member States	4.2	66.6	25.0	4.2	0.0
Assistance in standard-setting and standards compliance for member States and their industries	25.0	45.8	29.2	0.0	0.0
Facilitation of dialogue and partnership to promote ISID	12.5	58.4	20.8	8.3	0.0

Source: JIU survey of members of the Industrial Development Board (2016).

27. The opinion of the members of the Industrial Development Board reflected a positive view of technical cooperation activities (see table 1). However, the General Conference also stressed that other, equally relevant, complementary functions, such as the convening and partnerships role, normative functions and standard related activities, as well as policy advice, should be enhanced and implemented through projects and programmes. In the view of the Inspectors, this vision has not been sufficiently translated into specific allocation of resources. **This trend may weaken the Organization's mandate as a United Nations specialized agency if UNIDO serves predominantly as an implementing agency.**

### *Engagement of member States in the governance*

28. The biennial meetings schedule of the General Conference was assessed by representatives of member States and the secretariat as adequate to facilitate the dialogue between all UNIDO stakeholders. However, the full membership of the Organization is not represented at the meetings of its supreme governing body: only 134 delegations participated in the General Conference in 2015, apparently reflecting a pattern visible in its past three regular sessions. The Inspectors also noted that, as at December 2016, over 40 member States were suspended from their voting rights in the governing bodies as a result of their arrears in payment of assessed contributions to the regular budget. Finally, the low response rate from members of the General Conference to the JIU survey (7.5 per cent) is also noteworthy in this context.

29. Participation in the Board is significantly higher. UNIDO member States are grouped according to five lists of States annexed to the Constitution. Among these, list B comprises 16 States and has 15 seats on the Board. Two seats have been vacant since 2014. As of 2016, also one list B seat on the Programme and Budget Committee has remained vacant. To ensure a full composition of the Board, a potential solution could be to refer to paragraph 2 of annex I to the Constitution, which states that the General Conference may at any time, after appropriate consultations, change the classification of a member as listed. Member States may wish to consider initiating consultations within and among regional groups, with a view to amending the lists of states.

The secretariat may examine the feasibility of acting on this provision and report its conclusions to the Board and the General Conference.

30. In the absence of permanent working groups of the Board, the secretariat employs a number of informal mechanisms with member States for the purpose of information-sharing and preliminary exchange of views and suggestions, for example, meetings with the chairs of regional groups and consultations on specific items. In the same vein, the secretariat has strengthened informal communication channels used to update the representatives of member States on the implementation of the programmes and activities. In 2016, this resulted in the introduction of an enhanced mechanism for dialogue between member States and the secretariat. Another positive development was the launch of the online Open Data Platform to give access to a broad range of information on programmes and activities and provide an opportunity for UNIDO stakeholders to engage more in the follow-up of the Organization's activities. Thus, the framework for a constructive dialogue between member States and the secretariat looks more robust than it did in the past, with the objective to enhance oversight and guidance and provide additional reporting opportunities on the Organization's achievements and constraints. At the time of the finalization of the report, it was still too early to assess the effectiveness of this mechanism for enhanced dialogue.

31. In the past, a number of Industrial Development Board working groups were active on substantive and managerial issues, *inter alia*, payment of contributions, trade capacity building, field presence.<sup>12</sup> A positive example was the experience and outcome of the informal working group on the future, including programmes and resources, of UNIDO, which produced a number of practical recommendations for UNIDO management (see box). Member States may wish to consider institutionalizing working groups for issues deemed important to the Organization that may require more guidance and oversight. This would seem particularly relevant in the context of the 2030 Agenda and the implementation of the Sustainable Development Goals.

**Box: Informal working group on the future, including programmes and resources, of UNIDO**

The informal working group on the future, including programmes and resources, of UNIDO (2011-2013) conducted an analysis of the strengths and weaknesses of, opportunities for and risks faced by the Organization, and produced a Strategic Guidance Document. The document outlined four complementary functions of UNIDO (technical cooperation; action-oriented research and policy advisory services; standards and compliance; and its convening and partnerships role) and three thematic priorities (productive capacity-building, trade capacity-building and sustainable production and industrial resource efficiency). A management-focused section contained 19 recommendations addressed to the secretariat. The representatives of member States and UNIDO management interviewed commended the informal working group for its constructive engagement methods and for its flexibility, inclusiveness and transparency.<sup>13</sup> The Industrial Development Board took note of the outcome document, which contributed to the Lima Declaration and served as a basis for the medium-term programme framework.

32. As the United Nations system enters the implementation stage of the 2030 Agenda, UNIDO has to define and secure its role and place in an increasingly challenging and rapidly changing environment. To this effect, in 2015 the General Conference requested the Director General to develop and implement strategies to support the achievement of Sustainable Development Goal 9 and other relevant and interlinked goals and targets and to report to member States on the UNIDO contribution to the achievement of the 2030 Agenda.<sup>14</sup> Subsequently, the Industrial Development Board defined some steps to ensure the participation of UNIDO in the follow-up and review process of the Sustainable Development Goals, including the substantive input of the Organization to the high-level political forum of the Economic and Social Council.<sup>15</sup> These documents contain key elements outlining the Organization's road map towards the achievement of the 2030 Agenda. On that basis, the

<sup>12</sup> Intersessional open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions (1996-1998), informal advisory group on field representation (1997), intersessional working group to advance further the process of definition of the future role and functions of UNIDO (1997-1999), informal consultative group on voluntary contributions and UNIDO membership (2003-2004), informal consultative group on trade capacity-building (2003), intersessional working group on amendments to the financial regulations (1996-2002) and informal working group on the future, including programme and resources, of UNIDO (2011-2013).

<sup>13</sup> IDB.40/10-PBC.28/10, IDB.40/17 and IDB.41/13-PBC.29/13 (interim reports) and document IDB.41/24 (final report).

<sup>14</sup> General Conference resolution GC.16/Res.2: UNIDO and the 2030 Agenda for Sustainable Development.

<sup>15</sup> Board decision IDB.44/Dec.9: UNIDO inputs to the high-level political forum under the auspices of the Economic and Social Council.

Inspectors believe that the General Conference may wish to take stock of the work already done and presented in the reports of the Director General, update its guidance for further implementing the Sustainable Development Goals and provide the resources necessary for achieving these objectives.

33. The following recommendation is expected to enhance the effectiveness of UNIDO in contributing to the achievement of the goals of the United Nations development system.

**Recommendation 1**

**The General Conference is invited to examine at its seventeenth session in 2017 the strategies proposed by the Director General to support the achievement of the Sustainable Development Goals, with special emphasis on Goal 9, to ensure that the role of the Organization is well defined, and to provide necessary resources through the successive programme and budgets for the implementation of those strategies.**

### III. MANAGEMENT

34. The UNIDO secretariat structure has changed several times, with three restructurings since 2013, primarily to adjust to resource availability. As at January 2016, the secretariat was structured into four major components (see annex II): the Office of the Director General and three main components each headed by a Managing-Director (at the D-2 level). The Office of the Director General comprises the main corporate functions (legal advice, strategic planning, oversight, evaluation and human resource management). External Relations and Field Representation (EFR) coordinates external relations with member States and with other stakeholders and partners in the United Nations system, the broader development community, civil society and academia. Programme Development and Technical Cooperation (PTC) oversees the technical assistance operations. Policy and Programme Support (PPS) hosts the administrative, financial and support services as well as the Department of Policy Research and Statistics.

35. The latest organizational structure was announced in 2016 in two successive Director General's Bulletins.<sup>16</sup> The Inspectors noted the consistent good practice followed by the UNIDO secretariat to describe the structure and the functions of each organizational unit using official documentation. This provides a corporate-wide understanding of the respective roles and responsibilities of each organizational unit.

36. Due to budgetary constraints, several corporate functions operate with limited staffing: the Office of Strategic Planning and Coordination (two staff in the professional category, two support staff); the Office of Legal Affairs (one director, two staff in the professional category, two support staff); and the Office of Internal Oversight and Ethics (one director, two staff in the professional category, two support staff). Some units have been subject to frequent rotation and/or high vacancy rates. The Inspectors believe that having major corporate functions insufficiently staffed to manage planning, legal advice or human *resources* carries risks for the Organization.

37. The Inspectors acknowledge the rationale for restructuring. However, continuous reform processes may have an adverse impact on the effectiveness of the Organization for a variety of reasons: (a) downsizing creates uncertainty and can lower staff morale; (b) matching individuals' expertise and grades within a new structure may prove difficult; and (c) adjustments in workflows and the establishment of new coordination mechanisms require time to reach intended efficiency benefits. These factors should be kept in mind in each new phase of major organizational restructuring.

#### A. Executive management

38. The UNIDO secretariat operates under the Director General, who has the overall responsibility and authority to direct its work.<sup>17</sup> With the current situation in mind, representatives of member States underlined, during the interviews, the proactive role of the Director General and the efforts he has made since taking office in July 2013 to ensure the Organization's functioning and its viability. In their responses to the JIU survey, members of the Industrial Development Board generally assessed UNIDO executive management as responsive and transparent in producing information on its decisions and activities.

39. The Executive Board, composed of the Director General and the three Managing Directors, is the senior management committee responsible for the centralized management of and decision-making for the secretariat, with a broad mandate covering policy, programme, project and management issues. Thirteen areas of responsibility are listed in its terms of reference. **In the opinion of the Inspectors, the terms of reference of the Executive Board should be promulgated in a Director General's bulletin.** The Executive Board receives logistical support from the Office of Strategic Planning and Coordination as its secretariat.

40. The Inspectors reviewed the minutes of 53 meetings of the Executive Board held during the period 2014-2016. The analysis revealed that, apart from dealing with various managerial and organizational issues, a heavy focus of the Executive Board was on maximizing opportunities to raise the profile of UNIDO in

<sup>16</sup> UNIDO/DGB/2016/01 and Amend.1: UNIDO secretariat structure 2016.

<sup>17</sup> Echoing recommendations included in JIU/REP/2009/8 on the selection and conditions of service of executive heads in the United Nations system organizations; UNIDO was one of the first to introduce a forum of candidates during the selection process of its executive head. The Constitution includes provisions mandating a two-term limit for the Director General position.

the international development community. Following the revamping of the programme formulation process in 2014, the role of the Executive Board in approving technical cooperation programmes and projects has expanded to ensure senior management accountability, placing a considerable additional workload on the Executive Board.<sup>18</sup>

41. In its 2003 report, JIU suggested that the Board of Directors be used to support the Executive Board as a forum for the discussion of management issues related to substantive programmes, as well as organizational and staff issues. This suggestion was not accepted as, in the view of the then UNIDO management, it did not add value to the effectiveness of the existing management practices at the time. In practice, activities of the Board of Directors have mainly become limited to an annual retreat, which primarily serves as an information-sharing, brainstorming and team-building forum.

42. Recently, there have been initiatives to provide additional support to the Organization's top-level management. In 2015, a Strategy Committee was established to serve as an advisory body to the Executive Board on issues of strategic importance to the Organization, but it has met infrequently.<sup>19</sup> In October 2016, the Director General established the internal senior management briefings for the members of the Executive Board and the staff at director level to share information across divisions and to discuss matters related to the implementation of management priorities and other strategic issues.

43. The Inspectors believe that executive management at UNIDO could benefit from formalizing the terms of reference of the internal senior management briefings with a view to clarifying and strengthening the coordination and information-sharing functions to support the Executive Board in its decision-making and managing the Organization. It could serve as a platform for consistently following internal management issues, programmes and procedures and promoting coordinated approaches to carry them out. This could contribute to enhancing cohesion across the Organization and strengthening institutional knowledge-sharing.

44. The following recommendation is expected to enhance coordination and cooperation in the management practices at UNIDO.

## **Recommendation 2**

**The Director General should consider formalizing the internal senior management briefings with a view to strengthening the corporate-wide coordination and information-sharing functions in order to support the Executive Board in the management of the Organization.**

45. The UNIDO management framework is further comprised of statutory management committees that address specific corporate functions and are composed of members from across the secretariat.<sup>20</sup> Some are based on UNIDO regulations and rules while others were established by the Director General through bulletins or administrative instructions. Most committees report to the Director General, but some report to Managing Directors.

46. The Inspectors found that the main policies for the management of the Organization were reflected in Director General bulletins and other administrative instruments. The existing set of management regulations and rules was assessed positively by staff members in their responses to the JIU survey and interviews. However, table 2 draws attention to some implementation challenges, such as consistency and, to some extent, communication. These aspects were echoed by employees working under non-staff contracts.

<sup>18</sup> UNIDO/DGB/(P).130 and DGB/2016/6: Programme and project formulation and approval function.

<sup>19</sup> UNIDO/DGB/2015/02.

<sup>20</sup> Joint Appeals Board, Joint Disciplinary Committee, Procurement Committee, Appointment and Promotion Board, Joint Advisory Committee, Classifications Appeal Committee, Publications Committee, Security Management Group, Advisory Board on Compensation Claims, Property Survey Board, Staff Pension Committee.

**Table 2: Opinion of UNIDO staff members on the regulations, rules and administrative instruments and their implementation (percentage of respondents)**

	Agree	Mostly agree	Neither agree nor disagree	Mostly disagree	Disagree
UNIDO regulations, rules and administrative instruments are sufficient and clear enough for effective implementation	19.9	43.3	20.1	12	4.7
UNIDO regulations, rules and administrative instruments are well communicated organization-wide	18.1	34.8	22.6	18.4	6.1
UNIDO regulations, rules and administrative instruments are implemented in a consistent and fair manner	14.6	29.5	26.4	18.7	10.8

Source: JIU survey of UNIDO staff members (2016).

### *Accountability*

47. UNIDO has various components of a corporate-wide accountability framework in place, including, primarily, the Internal Control Framework (revised in 2013), as well as a series of delegation-of-authority instruments, the policy on financial disclosure and declaration of interests (2010) and the standards of integrity and ethical conduct for staff (2010). The revision of the performance management system (2012) and the strengthening of results-based management are also intended to promote a culture of accountability. Some specialized accountability frameworks have been formalized for security management and gender mainstreaming.<sup>21</sup> These components were found to be at various stages of maturity.

48. **Considering the organizational and structural changes and the reengineering of business processes that have taken place in UNIDO in recent years, the Inspectors believe that the various elements of the accountability framework should be re-examined to introduce clarifications or updates as needed. In this exercise, the Internal Control Framework should be the subject of particular scrutiny.**

### *Coordination and information-sharing*

49. In response to the JIU questionnaire, UNIDO management indicated that the Managing Directors are responsible for coordination and collaboration between units and activities within their respective purview, as well as with other operational units, when necessary. The review found that coordination is often based on personal interactions across the Organization. Table 3 indicates that, in the view of the staff, some difficulties persist at the working level, particularly in terms of coordination between the organizational units and between headquarters and the field.

**Table 3: Opinion of UNIDO staff members on coordination (percentage of respondents)**

	Agree	Mostly agree	Neither agree nor disagree	Mostly disagree	Disagree
I think there is sufficient coordination within the organizational units of the UNIDO secretariat	12.6	30.8	28.4	20.4	7.8
I think there is sufficient coordination between the organizational units of the UNIDO secretariat	8.1	21.3	32.6	26.3	11.7
I think there is sufficient coordination between UNIDO headquarters and the offices in the field network	8.4	20.7	34.1	23.6	13.2

Source: JIU survey of UNIDO staff members (2016).

<sup>21</sup> UNIDO/DGB/(O).121 and UNIDO/DGB/(M).110/Rev.2.

50. The analysis of the description of the structure of the secretariat outlined in the 2016 Director General's bulletins indicates that several organizational units exercise responsibilities in similar corporate functions, such as resource mobilization, results-based management and engagement with external partners. At the same time, functions with possible synergies are located in different components of the Organization and are placed under the authority of different Managing Directors. This is the case for external relations and communications, technical assistance and field representation, and technical assistance and research. While coordination is repeatedly mentioned in the bulletin, there is no institutionalized coordination mechanism other than that exercised by the Executive Board. **The Inspectors concluded that the issue of enhancing coordination throughout the secretariat should be thoroughly examined by the UNIDO management to avoid overlap and duplication and to increase synergies.**

51. The secretariat has a number of internal communication channels for disseminating information (administrative instruments, intranet). However, the Inspectors received indications from different sources that the communication was not always perceived as sufficient, even on important management decisions. The versatile context in which UNIDO operates makes proper explanation and transparency crucial when decisions are taken on major issues, such as the secretariat's restructuring, staff reassignments and field network reforms. The Inspectors believe that transparent communication is a key requirement of any change management process, as it has a direct impact on the engagement of staff and their level of confidence in management.

## B. General management and administration

52. Within the secretariat, Policy and Programme Support consolidates administrative and support functions and coordinates administrative services such as finance, procurement and information technology. Its internal capacity has been stretched while its workload has been increasing as a consequence of high demands from the expanding activities under Programme Development and Technical Cooperation. UNIDO management stated that the level of services could be maintained given the efficiency gains arising from the Programme for Change and Organizational Renewal and the staff's dedication, despite the increased workload. This statement is partially supported by staff ratings of the quality of services provided by Policy and Programme Support within UNIDO and as part of the common services at the Vienna International Centre (see table 4). No major deficiencies were flagged and the level of satisfaction was mostly assessed as above average.

**Table 4: Opinion of UNIDO staff members on the quality of the Organization's administrative and support services (percentage of respondents)**

		Very good	Good	Average	Poor	Very poor	Not a regular user
Finance		13.2	37.4	27.5	9.6	4.5	7.8
Information and communications technology		19.0	41.3	26.8	4.2	2.4	6.3
Travel		22.3	45.2	16.0	2.7	1.8	12.0
Procurement		18.6	39.8	19.0	4.5	1.8	16.3
Vienna International Centre	Catering (UNIDO) <sup>a</sup>	8.1	24.7	26.2	16.0	4.2	20.8
	Building management (UNIDO)	24.4	38.6	12.9	1.2	1.5	21.4

Source: JIU survey of UNIDO staff members (2016).

<sup>a</sup> The ratings may likely correspond to the level of satisfaction with the quality and variety of food and service rather than to the catering management by UNIDO.

### Procurement

53. The Procurement Services Division is responsible for centralized procurement of goods and services for technical cooperation projects (technical cooperation procurement) and for headquarters requirements (non-technical cooperation procurement). The procedures are governed by the UNIDO financial regulations

and rules and by the 2013 Procurement Manual,<sup>22</sup> which adheres to the established United Nations system procurement principles of fairness, integrity, competitiveness and transparency.

54. The volume of procurement was estimated at €147,866,642 for 2015, with non-technical cooperation procurement amounting roughly to 22.5 per cent of the total. Procurement procedures vary according to the value of intended commitments. The Procurement Committee acts as the advisory body to the Managing Director of Policy and Programme Support in examining whether the procurement process is being conducted in accordance with the Organization's financial regulations and rules. The summary records of the meetings of the Procurement Committee demonstrated well-maintained and detailed documentation.

55. The Inspectors noted several good practices in the area of procurement. The procurement manual is complemented by a series of guidance notes that help support the process according to internal standards. UNIDO introduced an innovative e-procurement system when the enterprise resource planning system was deployed, streamlining procurement efficiency and increasing the productivity of procurement staff. The system also improved information-sharing, as reports on procurement contracts and related information are available on the UNIDO extranet.

### *Travel*

56. UNIDO average annual travel expenses are estimated at around €6 million. While €1.3 million are linked to regular budget expenditure on travel, the remaining part is related to technical cooperation delivery. In March 2015, UNIDO management promulgated a revised policy on official travel in response to the Industrial Development Board's request to reduce costs and rationalize standards of accommodation for official travel.<sup>23</sup> The policy integrates some aspects of the United Nations travel policy (2013) but differs by imposing stricter rules in some cases (discontinuation of additional daily subsistence allowance for staff at director and above levels, limitations on the number of days of travel for managers and staff). Some provisions of the United Nations policy were not considered consonant with the specific requirements of UNIDO, while others were not formally introduced but, according to UNIDO management, are followed in practice (standards of accommodation). Leading by example, the Director General has renounced first-class entitlements for official travel. At the operational level, an online booking system for purchasing tickets was implemented in 2012, which resulted in a significant reduction in transaction costs, translating into savings of about €150,000 for 2015, according to UNIDO secretariat estimates.

57. Acknowledging these efforts, **the Inspectors suggest that an assessment of the achieved savings resulting from the implementation of the new travel policy should be presented to the Industrial Development Board after a period of three years to assess whether the above-mentioned measures have produced their intended effect or should be further adjusted.**

### *Common services*

58. UNIDO is one of the organizations involved in the management of common services among the organizations located in the Vienna International Centre. The 1977 Memorandum of Understanding concerning the allocation of common services established the framework for collaboration and the responsibilities between the United Nations Office at Vienna, the International Atomic Energy Agency and UNIDO. It was amended in 1998 to incorporate the Comprehensive Nuclear-Test-Ban Treaty Organization as a client but not as a service provider. Under the Memorandum of Understanding, UNIDO is responsible for building management and catering management.

59. The governance structure includes the Committee on Common Services, which provides advice and coordination for the management of all common services at the level of the heads of administration and reports to the executive heads of the respective organizations. The Committee on Common Services is supported by joint committees, the largest of which is the Infrastructure Committee, which ensures proper management of and information exchange on safety and security, buildings management, arts and exhibitions and other matters referred to it by the Committee on Common Services. A cost-sharing formula has been agreed on, determining each organization's financial commitment on the basis of parameters such as space occupied and workforce.

<sup>22</sup> UNIDO/AI/2013/02.

<sup>23</sup> Board decision IDB.41/Dec.12: Programme and budgets 2014-2015, para. (g).



The Inspectors identified good practices within the common services governance structure, including the regular rotation of the Infrastructure Committee's chair and the annual updating of the parameters factored into the cost-sharing formula.

60. The allocation of common service obligations has not changed significantly from the original arrangement, in spite of subsequent developments; for example, when UNIDO assumed the responsibility for building management in 1977, it was the largest of the Vienna-based organizations, which is no longer the case. During the preparation of the present review, neither UNIDO nor its partners signalled any need to reconsider the Memorandum of Understanding to readjust responsibilities. Both UNIDO and its partners indicated that the current framework functioned adequately. However, since the Memorandum of Understanding describes respective responsibilities in general terms, the external auditor suggested that UNIDO responsibilities for maintaining and repairing the Vienna International Centre complex should be better defined. **The Inspectors believe that a possible improvement could be to formalize the current factual relationship among the signatories by better defining the expected roles and responsibilities in the form of written procedures and service-level agreements. This could permit better monitoring of the performance of each service.**

#### IV. FINANCIAL FRAMEWORK

61. UNIDO financial resources are structured into three main pillars. The regular budget (in euro) is funded primarily (over 98 per cent) from member States' assessed contributions, complemented by other sources, such as interest income, sale of publications and government contributions to the field offices. The voluntary contributions (in United States dollars) are received from various categories of donors. The operational budget (in euro) is funded mainly from support-cost reimbursement income earned through the implementation of technical cooperation activities. Table 5 shows the amounts of each of these components for 2012-2013 and 2014-2015, for which complete information was available, and estimates for 2016-2017, indicating the respective proportions of the various categories of financial resources.

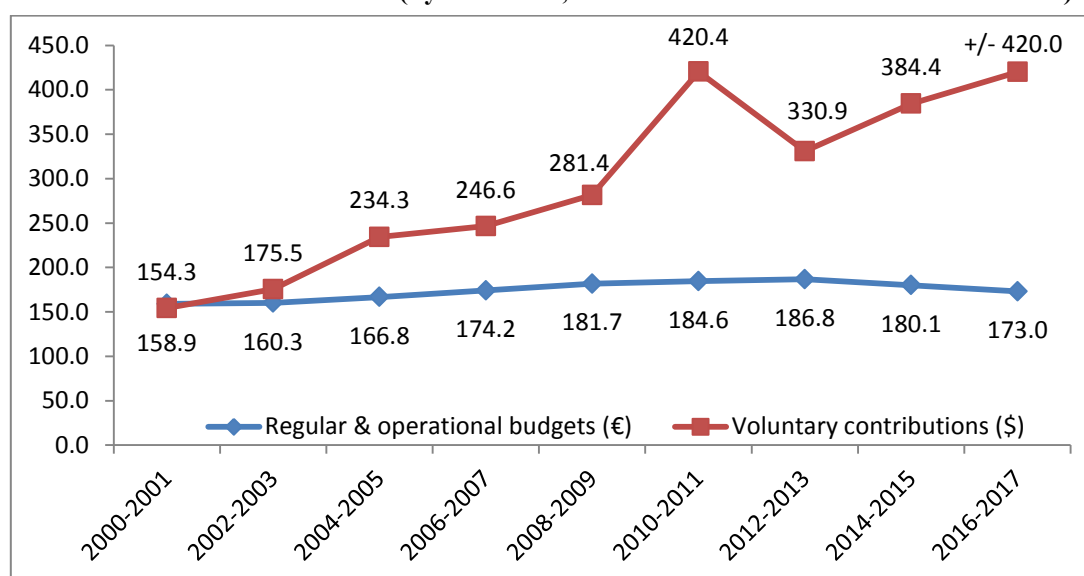
**Table 5: Structure of UNIDO financial resources (millions of euro or United States dollars)**

	2012-2013	2014-2015	2016-2017
Regular budget	€157.9	€147.3	€138.9
Operational budget	€28.9	€32.8	€34.1
Voluntary contributions	\$330.9	\$384.4	\$420 (estimate)

*Source:* Programme and budgets documents and information provided by the UNIDO secretariat.

62. There have been significant changes in the balance between regular budget and voluntary contributions in the past two decades (see figure I). Similar structural evolution is observable elsewhere in the United Nations system. In the case of UNIDO, the combined trends of the increase in the voluntary contributions and the shrinking of the regular budget have generated a profound change in the funding model, so that technical assistance income and expenditures have become predominant. The ratio of the regular budget to extrabudgetary resources is now roughly 1:3, as opposed to 15 years ago, when they represented more or less equal parts. During the review, representatives of many member States voiced reluctance to increase the financing of the management structures through the regular budget channel, often seen as diverting resources from the technical assistance programmes.

**Figure I: Evolution of UNIDO resources (by biennium, millions of euro or United States dollars)**



*Source:* Programme and budgets documents and information provided by the UNIDO secretariat. See also annex III.

63. In 2016, the external auditor alerted the Organization of the various potential risks arising from this growing imbalance.<sup>24</sup> Limitations in regular budget resources impose management constraints and strict cost-control measures on all budgetary expenditures. The operational budget partially compensates for the regular budget decrease. At the same time, the operational budget conforms to the steady growth of the

<sup>24</sup> IDB.44/3-PBC.32/3: Report of the External Auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2015 (paras. 97-99).

technical cooperation activities that require additional corporate support, such as support services, procurement and legal advice. This may result in significant structural tensions.

64. It can be argued that there are some positive aspects of the current model. UNIDO management estimated that the streamlining of procedures and processes through the enterprise resource planning system had resulted in significant productivity gains. On the basis of figures provided by the secretariat, it is estimated that in 2000 one unit of assessed contributions generated 1.47 units of voluntary contributions, while in 2015 the same unit of assessed contributions generated 3.09 units of voluntary contributions. On the other hand, the model has its limitations. It reflects a greater reliance on voluntary contributions, which inherently may introduce unpredictability in resource availability. The external auditor pointed out that this trend might bear risks for the future. He recommended that management monitor closely the developments over the next few years.<sup>25</sup>

65. This situation has had a significant impact on the overall scope of activities carried out by UNIDO. Core functions such as research, statistics, norm-setting and engagement in the United Nations system have been reduced in comparison to technical cooperation projects. The origins of incoming funds transform technical cooperation units into perceived “profit centres” capable of attracting donor funding. Currently, specialized multilateral funds practically dominate the Organization’s financial landscape. Furthermore, from the working level perspective, 66 per cent of staff considered that funding and budgetary constraints had affected their organizational units. Staff expressed concerns regarding the financial and human resources capacity of their units to perform according to their mandate in the long run.

#### *Assessed contributions*

66. The volume of assessed contributions has been diminishing over the years, as shown in table 6. In the budget for 2016-2017 they represented €136.4 million, a drop of €16.8 million compared to 2012-2013 (€153.2 million), regressing to levels comparable to the early 2000s (in nominal terms). This decrease of 11 per cent is attributable to the withdrawal of several States from the membership since 2012. In 2011, the Programme and Budget Committee and the Industrial Development Board took the position that the diminishing resources resulting from the withdrawal of member States should not be compensated for or replaced by increases in the assessed contributions from the remaining member States.<sup>26</sup> UNIDO management had to readjust the regular budget and implement strict financial controls and cost-saving measures to preserve the Organization’s financial viability. **The Inspectors believe that the situation has to be scrutinized by the governing bodies with a view to ensuring that the regular budget provides UNIDO with sufficient resources, not only to support its technical cooperation activities, but also to fulfil its other mandated functions as a United Nations specialized agency.**

**Table 6: Evolution of assessed contributions since 2012-2013**

Biennium	Member States	Assessed contributions (millions of euro)	Decline from previous biennium	Total decline
2012-2013	176 (2012)	153.2	-	-
	174 (2013)			
2014-2015	173 (2014)	143.7	6.2 per cent	-
	171 (2015)			
2016-2017	170 (2016)	136.4	5.1 per cent	11 per cent
	168 (2017)			

*Source:* Decisions adopted by the General Conference on the programme and budgets.

67. In an effort to mitigate the resource constraints, the Industrial Development Board approved in 2015 the creation of two special accounts proposed by the Director General: the Special Account of Voluntary Contributions for Core Activities (SAVCCA) and the Major Capital Investment Fund (MCIF) which have become operational since 2016.<sup>27</sup> In the short term, the SAVCCA appears to be an innovative approach to

<sup>25</sup> Ibid., para. 67.

<sup>26</sup> Board decision IDB.39/Dec.7: Programme and budgets, 2012-2013.

<sup>27</sup> Board decision IDB.43/Dec.6: Programme and budgets, 2016-2017. As at December 2016, the balance of the SAVCCA was negligible and the MCIF stood at €810,211.

generating and allocating voluntary contributions to fund the core activities of the secretariat. However, it does not yet function as a sustainable solution, as noted by the external auditor. **UNIDO management should increase efforts to reach out to potential donors to raise funds for the special accounts by building case studies on the corporate need for, and benefits of, possible contributions. In this context, the Inspectors also noted the call by the Industrial Development Board for increased contributions to the Partnership Trust Fund, the SAVCCA and the MCIF.**<sup>28</sup>

68. The budgetary and financial constraints are exacerbated by the amount of arrears in assessed contributions and by the payment of assessed contributions late in the biennium for which they are due. The collection rate for 2014-2015 was 90.6 per cent, down from 96.9 per cent in 2012-2013. In June 2016, the accumulated assessed contributions pending collection were over €110 million: roughly €39.5 million from current member States and €71.2 million from former member States.<sup>29</sup> UNIDO management stated that it was actively working with member States on the establishment of multi-year flexible payment plans. **Bearing in mind articles 6 and 15 of the Constitution, the Inspectors concur with the position consistently expressed by the Industrial Development Board which urged current and former member States to fulfil their legal obligations and financial commitments to the Organization.**

#### *Voluntary contributions*

69. Voluntary contributions represent a major source of the organizational funds; they are mostly allocated to the technical cooperation programmes and projects. Their amount has been steadily growing, and projections for 2016-2017 are reflecting an upward trend. This increase is interpreted by the management as a sign that the Organization is gaining wider recognition as an effective provider of development services, building on its comparative advantages. Interviews with representatives of member States and the results of the JIU survey largely confirmed that assessment.

70. Table 7 outlines the current framework of voluntary contributions. While contributions from the Global Environmental Facility and the Multilateral Fund for the Implementation of the Montreal Protocol are subject to annual fluctuations, they have consistently represented approximately 50 per cent of the total voluntary contributions in recent years and are expected to reach an even larger proportion in the years to come. UNIDO is thus highly dependent on this type of revenues. The European Union has also remained an important donor for UNIDO. The United Nations pooled funding mechanism accounts for a small share of resources. Bilateral contributions come primarily from a relatively small group of donors; five countries account for almost 50 per cent of them.<sup>30</sup> It is noteworthy that several former member States continue to provide financing to UNIDO activities through bilateral or pooled funding.

<sup>28</sup> Board decision IDB.44/Dec 8: Fiftieth anniversary of UNIDO.

<sup>29</sup> The amount includes €69.1 million (United States of America, member State until 1996) and €2.1 million from former Yugoslavia (outstanding contributions to be resolved in accordance with General Assembly resolution 63/249, as stated in the report of the Director General on the financial situation of UNIDO, see IDB.44/4-PBC.32/4).

<sup>30</sup> Italy, Japan, Norway, Sweden and Switzerland.

**Table 7: Overview of voluntary contributions, including bilateral, 2016**

	Amount (millions of United States dollars)	Percentage of total voluntary contributions
Global Environment Facility	79.5	37.9%
Multilateral Fund for the Implementation of the Montreal Protocol	38.3	18.2%
Third party-financed trust funds	36	17.1%
Industrial Development Fund	29.5	14.1%
European Union	16.9	8%
Other trust funds <sup>a</sup>	3.3	1.6%
Self-financed trust funds	3.2	1.5%
UNIDO <sup>b</sup>	2.5	1.2%
UNDP funds <sup>c</sup>	0.9	0.4%
<b>Total</b>	<b>210.1</b>	<b>100%</b>

Source: Prepared on the basis of information provided by the UNIDO secretariat.

<sup>a</sup> Includes projects and grants financed by other United Nations agencies and funds, One United Nations funds, the Millennium Development Goals Achievement Fund, the Common Fund for Commodities, co-financed investment promotion service activities and others -- <sup>b</sup> From regular budget (Regular Programme of Technical Cooperation, not a voluntary contribution per se) -- <sup>c</sup> Combines all UNDP funds, including UNDP-administered trust funds, but excludes the UNDP-funded Global Environment Facility.

71. Earmarking is a widespread practice and is mainly decided by the donor's priorities and policies. At UNIDO, voluntary contributions remain to a very large extent earmarked to project level. This leaves UNIDO management with little flexibility when planning and prioritizing resource allocation. Thematic trust funds have been designed to attract programmable resources and funding with fewer funding allocation criteria, but they have not yet garnered significant resources (see annex III).

72. Donors usually impose conditions that are rarely identical to each other and that evolve over time. Diverse conditions attached to donations create additional administrative burdens for UNIDO management, including drafting and reviewing specific legal agreements, applying procurement rules and complying with changing monitoring and reporting modalities.

73. Reducing the level of earmarked contributions should be a common endeavour for member States and UNIDO management. There are repeated requests from the Programme and Budget Committee encouraging member States to consider contributing to UNIDO to enable the Organization to work with funding sources that require co-funding, either by contributing to the dedicated trust funds or through special purpose funding at the country or global level.<sup>31</sup> The current efforts of UNIDO management to increase transparency and enhance monitoring and reporting are designed to contribute to building donors' confidence and alleviate some earmarking practices.

74. The Inspectors further noted the discussion during the 2015 sessions of the Programme and Budget Committee and the Industrial Development Board on the introduction of a standardized approach for the treatment of unutilized balances of appropriations. No decision has been made to date. The Inspectors consider this to be an avenue that should be further explored in order to provide resources for the UNIDO secretariat where they are needed. For example, in the past, the General Conference established special accounts with unutilized balances of appropriations which permitted to finance the Programme for Change and Organizational Renewal.<sup>32</sup> In the meantime, some countries have voluntarily renounced unutilized balances for the benefit of trust funds, directed mostly towards technical cooperation services.

<sup>31</sup> See, for example, IDB.44/8: Conclusion 2016/9 on mobilization of financial resources.

<sup>32</sup> General Conference decision GC.15/Dec.13: Unutilized balances of appropriations.

### *Programme support costs*

75. Programme support costs (PSC) are costs incurred by UNIDO in support of the preparation and implementation of programmes and projects funded from extrabudgetary resources. They are charged on voluntary contributions and have become an integral part of the Organization's budget. They have grown to represent a critical proportion of UNIDO resources (about one fifth of its core funding), and are primarily assigned to funding a similar proportion of the workforce. The standard support-cost rate amounts to 13 per cent of the actually incurred expenditures. As per the UNIDO financial regulations (rule 106.4.2), any exception to the standard rate requires the approval of the Director General. UNIDO has concluded special framework agreements with major donors, such as the Global Environment Facility, the Multilateral Fund for the Implementation of the Montreal Protocol and the European Union, that provide for a special support-cost reimbursement scheme. Donors are increasingly reluctant to pay programme support costs at the standard rates, and impose their own requirements for technical assistance delivery. The external auditor has pointed out on a number of occasions that the programme support costs charged to donors did not fully cover the administrative costs of the Organization.<sup>33</sup> This observation was corroborated by UNIDO management, which stated that support-cost income, as a reimbursement by donors, only partially compensates for the support services rendered by the secretariat to implement projects funded by specified contributions.

76. In December 2016, UNIDO management reviewed its PSC policy, which dated back to 1999, and revised the principles guiding cost recovery in order to harmonize and optimize them. **The Inspectors encourage UNIDO management to continue its efforts towards computing more accurately, through the enterprise resource planning functionalities, the working time of project managers and all other supporting services extended by UNIDO in the execution of projects. This will enable UNIDO management to clearly demonstrate the allocation of resources in support of technical cooperation projects and could contribute to efforts to bill such costs more efficiently.**

### *Coordination in resource mobilization*

77. Several units within the UNIDO secretariat are involved in resource mobilization. The Strategic Donor Relations Division promotes enhanced relations with traditional donor countries, including non-Member States, at the strategic and policy level. The Department of Regional Programmes and Field Representation, primarily through the field offices, plays an important role in identifying national development and donor funding priorities. By virtue of their function, PTC managers also work to mobilize resources for technical assistance programmes and projects. During the present review, examples were provided suggesting a lack of coordination in resource mobilization, such as an uncoordinated approach to donors and insufficient information-sharing on efforts by various UNIDO units.

78. **In the view of the Inspectors, UNIDO would benefit from an established corporate resource mobilization strategy outlining the organization-wide funding objectives, in line with recommendations contained in the 2014 JIU report on the resource mobilization function within the United Nations system.**<sup>34</sup> Such a strategy should define the scale of extrabudgetary resources and identify new sources of funding for non-technical cooperation activities such as research and normative and standard-setting functions. This could result in revenue generation, broaden the scope of activities covered and support the roles, responsibilities and procedures that can contribute to an overall corporate approach.

79. In this context, the Inspectors recognize the UNIDO donor meetings, launched in 2012, as a good practice. The meetings are not fundraising or pledging events but rather present an opportunity for UNIDO to showcase, for various types of stakeholders, donors and beneficiaries, success stories of its technical cooperation projects. This helps to bring greater focus and attention to the relevance of UNIDO, in particular in terms of the impact it has through the implementation of its activities, both at the regional and country level.

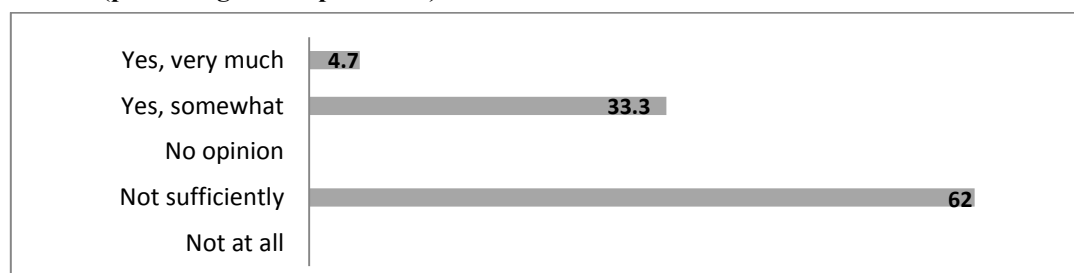
<sup>33</sup> Report of the external auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2015 (IDB.44/3-PBC.32/3), and Report of the external auditor on the accounts of the United Nations Industrial Development Organization for the financial year 1 January to 31 December 2014, (IDB.43/3-PBC.31/3).

<sup>34</sup> JIU/REP/2014/1: Analysis of the resource mobilization function within the United Nations system.

### *Financial sustainability*

80. During the preparation of the present review, UNIDO management and representatives of member States highlighted the adverse financial situation of the Organization as a main difficulty for the present and a major potential risk for the future. The Inspectors noted that about two thirds of the members of the Industrial Development Board expressed concerns regarding the current funding model based on a combination of assessed and voluntary contributions and its ability to ensure financial predictability and the sustainability of the Organization (see figure II). At the same time, the members of the Board considered that UNIDO management was proactive in exploring alternative sources of revenue and income.

**Figure II: Response from members of the Industrial Development Board to the question of whether the current UNIDO funding model ensures mid- to long-term financial predictability and the sustainability of the organization (percentage of respondents)**



Source: JIU survey of members of the Industrial Development Board (2016).

81. The Director General regularly presents reports on various aspects of the financial situation for consideration by the Programme and Budget Committee and the Industrial Development Board. The present circumstances do not allow simple or quick solutions to improve the financial situation. The Inspectors stress that the matter requires a joint commitment from the management and the member States to assess all dimensions of the resource equation. Recalling the support of the international community for the UNIDO mandates (see para. 10), the Inspectors believe that the sustainable improvement in the financial health of the Organization required to ensure the fulfilment of its core and additional mandates can occur only with the strong support of the member States and their resolve to actively promote the Organization and its mandates and functions. To provide a new impetus, the Inspectors suggest that proposals on various potential measures should be integrated into a comprehensive document presented by the Director General for the consideration of the governing bodies in order to promote a holistic approach to address the financial situation of UNIDO with a view to its gradual improvement.

82. The following recommendations are expected to contribute to the consolidation of the financial situation of the Organization.

#### **Recommendation 3**

**The Industrial Development Board should ensure that sufficient regular budget resources are provided to fund core functions of the Organization so as to enable it to carry out all its mandates as a specialized agency of the United Nations in a consistent and sustainable manner, in line with the provisions of the Lima Declaration. In this context, the Board, in accordance with its decision IDB.44/Dec.8, may also invite UNIDO member States to increase their contributions to the special accounts created by the secretariat.**

#### **Recommendation 4**

**The Director General should present to the Industrial Development Board at its forty-sixth session in 2018 a comprehensive report aimed at improving the financial situation of the Organization, integrating proposals on the main categories of its resources (regular budget, operational budget and voluntary contributions).**

## V. STRATEGIC PLANNING AND RISK MANAGEMENT

### A. Strategic planning and results-based management

83. The UNIDO strategic planning framework is similar to those of other United Nations system organizations. It is composed of: (a) the Lima Declaration adopted by the General Conference in 2013, constituting the long-term political strategy based on the premise of inclusive and sustainable industrial development; (b) the medium-term programme framework (MTPF) which reflects the broad programmatic objectives and priorities, drafted by the secretariat in consultation with member States and subsequently considered by all the governing bodies; and (c) the biennial programme and budgets documents.

84. Strategic planning is an instrument for identifying and mobilizing available resources and setting priorities for their optimal allocation in accordance with agreed goals and objectives endorsed by the governing bodies.<sup>35</sup> In the case of organizations such as UNIDO, where a significant proportion of activities are funded by extrabudgetary resources and regular budget resources are in decline, the challenge is to balance activities according to the overall mandate of the Organization and ensure alignment of the programmes and projects with the priorities agreed by the governing bodies. In this context, the Industrial Development Board delegates authority to the Director General to approve projects to be financed under the Industrial Development Fund, provided that the projects are conducted in accordance with the priorities defined in the medium-term programme framework.

85. In its thematic evaluation of the implementation of the expanded MTPF for 2010-2013, the Office for Independent Evaluation reviewed the level of engagement and ownership in the planning process by member States.<sup>36</sup> Currently, the Director General presents an initial proposal, based on informal consultations, for review by the governing bodies. Two thirds of the members of the Industrial Development Board who responded to the JIU survey were satisfied with the opportunities for member States to contribute to strategic planning and to establish the Organization's thematic priorities. The Inspectors believe that UNIDO member States should approach strategic planning as a channel for communicating their vision for the Organization and for guiding the work of the secretariat. In that context, the preparation of the medium-term programme framework should be viewed as an integral part in defining the contribution of UNIDO to achieving the Sustainable Development Goals.

86. UNIDO management decided to apply broad-scale results-based management as of 2006-2007 and has since gradually mainstreamed it throughout the Organization. The importance of results-based monitoring and reporting systems is strongly emphasized in the MTPF (2016-2019). However, in its response to the JIU questionnaire, UNIDO management acknowledged difficulties in this area, notably in terms of the alignment of resources with strategic objectives, effective data collection, performance monitoring and reporting at the corporate, programme and project levels. These same concerns have been highlighted repeatedly in internal evaluation reports and external reviews of UNIDO.

87. In recent years, there have been changes in assigning responsibility for results-based management among organizational units and staff. The analysis of the Director General's bulletin on the secretariat's structure shows that the responsibility is dispersed among various units, such as the Office of Strategic Planning and Coordination and the Office of Independent Evaluation and Quality Monitoring. Within Programme Development and Technical Cooperation, the Department of Partnerships and Results Monitoring plays a cross-divisional role in improving results monitoring of programmes and projects. The Chief of Cabinet acts as a focal point for the promotion of an UNIDO-wide coherent and consistent approach to results-based management. **In view of this multifaceted structure, UNIDO management should assess whether the current results-based management structures are effective in enhancing a corporate results-based culture or whether the responsibility for monitoring performance and results should be consolidated.**

88. The MTPF (2016-2019) includes a thorough situational analysis but, to a large extent, remains a narrative of intentions expressed in general terms. In the 2015 thematic evaluation of the previous framework some weaknesses and areas for improvement were indicated, such as the lack of a strategic vision and priorities

<sup>35</sup> JIU/REP/2012/12: Strategic Planning in the United Nations system.

<sup>36</sup> UNIDO Office for Independent Evaluation, "Independent strategic evaluation: implementation of the expanded UNIDO medium-term programme framework 2010-2013" (ODG/EVA/14/R.5).



and the insufficient indication of targets for monitoring and reporting. As a result, UNIDO management included in the framework for 2016-2019 a short section presenting a budgetary framework and an integrated results and performance framework (IRPF) consisting of a series of corporate indicators to support monitoring and reporting.

89. The Inspectors found the two-tier structure of the integrated results and performance framework to be an adequate basis for organizing the UNIDO corporate-level indicators. Tier 1 is focused on substantive mandates and industrial development activities and serves as a key element to demonstrate UNIDO achievements as a development Organization. Tier 2 is focused on organizational performance, programme management and organizational effectiveness. The indicators included in tier 2 were considered relevant but concentrated on a limited series of internal processes. In particular, the indicators on organizational effectiveness and modernization could be complemented by indicators related to other dimensions, including accountability, coordination, performance management and human resources processes.

90. In 2015, the General Conference adopted the MTPF with the understanding that the Organization “will set a baseline for these indicators and continue its efforts towards enriching them in a continuous manner.”<sup>37</sup> The documents presented by the secretariat to the Industrial Development Board in 2016 demonstrated the work of UNIDO management in dealing with a number of difficulties, such as constraints on data availability, limited internal resources and methodological issues.<sup>38</sup> The action plan shows the progress made so far as well as the amount of work still needed to finalize the IRPF.<sup>39</sup> This work should be conducted in the broader context of the framework of indicators to be established for the Sustainable Development Goals. **The Inspectors encourage UNIDO management to continue its efforts to finalize the IRPF, notably by clarifying pending indicators, attached baselines and expected targets as currently those elements are not systematically articulated.**

91. The wide range of activities undertaken by UNIDO makes it difficult to evaluate the work of the Organization as a whole. The challenge is to translate the indicators of achievement chosen at the programme and project level into meaningful reporting on the achievements of UNIDO at the global outcome level. Identifying, measuring and reporting on corporate objectives and achievements remain a work in progress for UNIDO. In 2016, the Industrial Development Board encouraged the secretariat’s continuous efforts in that direction.<sup>40</sup> The Inspectors stress that this will require a significant and coordinated effort by various components of the Organization to be successful.

92. As regards the technical cooperation activities, UNIDO management communicated that, in 2016, all project proposals should have incorporated a logical framework outlining elements such as the results-chain of project interventions, the indicators to measure expected results, the means for verifying those results and the risks associated with the project. This represents a clear improvement over the situation 10 years ago, when only 40 per cent of the projects were covered by a similar framework. The Inspectors also noted that the features embedded in the portfolio and project management module of the ERP system support managers, in particular through dashboards that facilitate monitoring and reporting tasks.

93. At the programme and project level, donor requirements often impose limitations on the application of results-based management principles. Some donors allocate resources strictly along results-based management principles, allowing UNIDO managers to shift resources wherever necessary to reach the expected results. Others are more rigid when it comes to resource allocation and the internal transfer of funds within the budget of a project.

94. **The Inspectors encourage UNIDO management to continue its efforts to track and report on the results of its activities through meaningful and measurable indicators as a necessary step for increasing credibility and accountability. UNIDO management should explore further options for enhancing the current reporting at the programme and project level to include results at the portfolio and the organizational levels, which would better demonstrate its contribution to economic, social and environmental impacts.**

<sup>37</sup> General Conference resolution GC.16/Res.1: Medium-term programme framework, 2016-2019.

<sup>38</sup> IDB.44/6-PBC.32/6. Updated indicators and metadata for the IRPF; and IDB/44/CRP.4.

<sup>39</sup> IDB.44/6/Add.1.

<sup>40</sup> Board decision IDB.44/Dec.2: Annual report.

## **B. Risk management**

95. Enterprise risk management is an organization-wide approach that supports the achievement of strategic objectives by proactively identifying, assessing, evaluating, prioritizing and controlling risks across the organization.<sup>41</sup> It is an essential element of good governance and accountability. The Enterprise Risk Management Policy (2013)<sup>42</sup> and the revised Internal Control Framework (2010, reissued in 2013)<sup>43</sup> outline the UNIDO approach to risk management. The policy presents, in general terms, the key concepts of a comprehensive framework. Annex III of the Internal Control Framework further details roles and responsibilities for the implementation of the framework at all levels of the Organization.

96. In its response to the JIU questionnaire, UNIDO management acknowledged that not all components of the risk management framework had been fully operationalized yet. According to the records of the Executive Board, risk management is not reviewed on a regular basis and there is no management committee focusing on that matter, actively working on the implementation of the policy by identifying organizational risks and proposing mitigation measures. The IRPF includes risk management indicators at the level of programme management and for organizational effectiveness and modernization.<sup>44</sup> These two sets of indicators could serve as the basis for further action in this area.

97. Risk management is coordinated at the department level. The ERP system has contributed to mainstream risk management at the functional level as part of the staff and line managers' responsibilities with regard to several internal processes. The UNIDO secretariat is confident that risk management practices are well embedded in existing business processes as an integral part of decision-making processes. The portfolio and project management module allows users to capture and better manage risks during the project cycle. However, interviews with PTC managers highlighted differences in practices, indicating that sufficient attention may have not always been given to risk management.

98. Despite the absence of references to concrete risk identification and mitigation strategies in the official documentation, the members of the Industrial Development Board surveyed by JIU indicated that the major risks faced by the Organization were well communicated by the UNIDO secretariat. However, this assessment was not found to be adequately supported by interviews, as some delegates did not demonstrate a high level of interest in or concern with the matter.

99. Upon the request of the Programme and Budget Committee, the Director General presented a general risk management strategy to the Board in 2016, with a focus on measures for addressing the financial and administrative impact of member States leaving the Organization.<sup>45</sup> The report listed the main concepts of risk management and the overall architecture of the secretariat's risk management framework, as outlined in existing documents. In the view of the Inspectors, the corporate risk management strategy should provide more elements of analysis. These should pertain to risks identified by UNIDO management, how they will be assessed and the measures to mitigate them. Additionally, a risk catalogue should be consolidated to enable each component of UNIDO to identify its most relevant related risks and mitigation measures in a clear and consistent manner.

100. It is stated in paragraph 2 of the enterprise risk management policy that UNIDO may face strategic, reputational, operational, legal, organizational, administrative, financial, technical and environmental risks at both the institutional and operational level. The Inspectors believe that UNIDO would benefit from an elaboration on this statement and further analysis of these elements. The results of this exercise should be communicated in a formal way, and on a regular basis, to the member States, as it is their prerogative to set the Organization's risk tolerance level in the accomplishment of its mandate and to guide the secretariat accordingly.

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<sup>41</sup> JIU/REP/2010/4: Review of enterprise risk management in the United Nations system: benchmarking framework.

<sup>42</sup> UNIDO/DGB/(P).126.

<sup>43</sup> UNIDO/DGB/(M).119/Rev.1.

<sup>44</sup> IDB.43/9-PBC.31/9: Medium-term programme framework, 2016-2019 (p. 30).

<sup>45</sup> IDB.44/11: General risk management strategy.

101. The following recommendation is expected to enhance the effectiveness of risk management at UNIDO.

**Recommendation 5**

**The Director General should expand the risk management strategy presented at the forty-fourth session of the Industrial Development Board to comprehensively address all major risks faced by the Organization with appropriate mitigation measures, and submit it to the Board for endorsement at its forty-sixth session in 2018.**

## VI. HUMAN RESOURCES MANAGEMENT

102. The present review took place during a challenging period for the Department of Human Resources Management. The financial situation imposes serious constraints in terms of recruitment and resource planning. In acknowledgment of this, in February 2016 the Department was placed within the Office of the Director General in an effort to provide it with greater strategic guidance. In September 2016, its Director was appointed as Managing Director of Policy and Programme Support while retaining the responsibilities of the Department of Human Resources Management. **Given the strategic and operational challenges of both functions, the Inspectors do not consider it advisable that these positions are occupied by the same individual, and call on the Director General to take the necessary measures to remedy this situation.**

103. The recent evolution of personnel-related expenditures for staff members and project personnel is presented in table 8. In 2016, staff costs represented 72 per cent of the combined resources of the regular and operational budget, proportionally similar to many other United Nations system organizations. Project personnel represented 33.6 per cent of technical cooperation allocations.

**Table 8: Overview of the personnel expenditures (in millions of euro or United States dollars)**

	2010-2011	2016-2017 (estimate)
UNIDO regular and operational budgets	€184.6	€173
Staff costs	€131.3	€124.4
Percentage of staff costs versus regular and operational budgets	71 per cent	72 per cent
Technical cooperation activities	\$320.2	\$178.6 (2016)
Project personnel costs	\$130.2	\$65.3 (2016)
Percentage of project personnel costs versus technical cooperation activities	40.7 per cent	36.6 per cent (2016)

Source: Prepared on the basis of information provided by the UNIDO secretariat.

104. There are two main modalities for reporting on human resources management. The Director General's annual report to the Industrial Development Board on personnel matters includes information on relevant developments in the United Nations system. An appendix to the Director General's annual report, presented to the Programme and Budget Committee and the Board, contains comprehensive human resources data and statistical information. **In the opinion of the Inspectors, this information should be complemented by a forward-looking qualitative analysis, indicating the trends observed and the challenges related to the workforce.**

### *Human Resources Management Framework*

105. The Human Resources Management Framework sets the guidelines for the management of human resources within the secretariat.<sup>46</sup> The rules and procedures are further specified through a series of Director General's bulletins and other administrative instructions. Since 2015, the Framework has been under revision, through a consultative approach, by the Department of Human Resources Management and the Joint Advisory Committee. In 2015, a series of changes to the Framework were introduced after the completion of the first phase of the review. The revision process has been ongoing but the progress is slow: at the time the present review was finalized, key issues had been consolidated for priority consideration and the potential implications of policy changes identified in areas such as classification and reclassification of posts, staff career development, recruitment and delegation of authority.

106. As the Framework covers crucial aspects of the management of human resources in the medium term, the Inspectors advise UNIDO management to finalize its revision as soon as possible. The relevant policies and administrative instructions should be promulgated or updated accordingly. The Inspectors stress the importance of including in that process a strategic analysis of the strengths and weaknesses of the in-house expertise and of the needs to meet the future challenges of the Organization, in particular in the context of the implementation of the 2030 Agenda.

<sup>46</sup> UNIDO/AI/2015/01.

107. The following recommendation is expected to enhance the effectiveness of the management of human resources at UNIDO.

#### **Recommendation 6**

**The Director General should finalize the Human Resources Management Framework and issue it as a Director General's bulletin by the end of 2017. Relevant policies and administrative instructions should be promulgated or updated accordingly.**

### **A. Workforce**

108. The contractual framework provides for three types of staff contract: regular contracts, which are for a three-year fixed term and are renewable; technical cooperation contracts, which are for a minimum of one year, renewable; and short-term staff or temporary assistance contracts, which have a six-month maximum duration. It also provides for one unique non-staff contractual modality: the individual service agreement. Within this framework, the structure and composition of the UNIDO workforce are characterized by a decline in the number of regular staff and by a high ratio of personnel without staff member status (experts and consultants).

109. Table 9 provides a comparative overview of the structure and composition of the UNIDO workforce in 2010 and 2016. In 2010-2011, there were 767 budgeted posts, while in 2016-2017 the number of budgeted posts was down to 697. This represents a 9.1 per cent reduction in budgeted staff positions. In addition, it should be noted that 111 budgeted positions (77 staff) belong to the Building Management Services Division. This means that slightly over 15 per cent of the budgeted positions and over 10 per cent of the staff are engaged in non-core functions of the Organization, servicing the Vienna-based organizations.

110. The Director General stated in his report on risk management, presented to the Industrial Development Board in 2016, that UNIDO relies heavily on temporary staff and personnel, with contractual terms allowing flexibility in case of the need for emergency-induced cost reductions.<sup>47</sup> Despite the decrease in the appointment of experts and consultants, the balance between staff and non-staff categories shows that staff members represent roughly one third of the total workforce.

**Table 9: Overview of UNIDO workforce (2010 and 2016) by main categories**

	2010	2016	2010/2016
<b>Employees with staff member status</b>			
<i>Internationally recruited staff members</i>			
Core staff members (100 series)	276	207	-25%
Non-core staff members (200 series)	N/A	40	N/A
	276	247	-11%
<i>Locally recruited staff members</i>			
National Professional Officers	34	43	+26%
General Service (100 series)	399	315	-21%
General Service short-term (300 series)	N/A	33	N/A
	433	391	-10%
<b>Total employees with staff member status</b>	709	638	-10%
<b>Experts and consultants<sup>a</sup></b>			
Internationally-recruited ISA holders (head count)	1 406	881	-37%
Locally recruited ISA holders (head count)	1 396	1 690	+21%
<b>Total ISA appointments</b>	2 802	2 571	-8%

Source: Prepared on the basis of the annual reports of the Director General and information provided by the UNIDO secretariat.

<sup>a</sup> The same individual may be granted more than one contract in a calendar year.

<sup>47</sup> IDB.44/11, para. 9.

111. The UNIDO secretariat has enacted a series of measures to mitigate the impact of declining regular budget resources without terminating staff contracts. These include the deliberate non-replacement of a number of staff upon their retirement and a temporary freeze on external recruitment (vacancies to be filled primarily with internal candidates, except in the case of waivers granted by the Director General). Keeping posts vacant has become a tool to reduce costs (UNIDO management reported 82 posts vacant as at November 2016). These measures, if practiced on a long-term basis, may have adverse effects not only on staff morale but also on the overall efficiency of the Organization (increased workload, prolonged vacancies, discrepancies between individual expertise and the requirements of the post). According to an official interviewed, UNIDO “has almost reached a critical staff level in terms of being able to accomplish its mission”.

112. The current practice inhibits UNIDO from replenishing its pool of internal skills and competencies from the external market. This adds to the risk of lowering the level of in-house technical expertise, ultimately preventing the Organization from keeping pace with its external environment. **To assess current and medium-term internal capacity and organizational requirements, the Inspectors suggest, as an initial step, compiling a list of positions not filled or expected to become vacant within the next two to three years for which external recruitment would be advisable.**

#### *Geographical diversity*

113. The principle of geographical diversity among staff is set out in article 11 of the Constitution and regulation 3.2 of the Staff Regulations. Unlike a number of other United Nations system organizations, usually those funded by assessed contributions, member States have not defined a formal mechanism to ensure geographical representation among staff members. Since the mid-1990s, the secretariat has followed a system of informal desirable ranges of representation for staff in the professional and higher categories that was presented to the Industrial Development Board and the Programme and Budget Committee.<sup>48</sup>

114. The imbalance in the representation of member States in the workforce is illustrated in table 10, which also shows the absence of major changes since 2010. Two lists of member States are underrepresented. Some member States are not represented in the professional category, while some non-member States are. The figures on the appointments of experts and consultants under individual service agreements (ISA) show some evolution in recent years.

**Table 10: Geographical diversity in the UNIDO workforce (2010 and 2016, percentage)**

List of member States	UNIDO membership	Professionals (2010)	Professionals (2016)	ISA appointments (2010)	ISA appointments (2016)
List A	58.5	33	33	60 <sup>a</sup>	52
List B	10.5	44	40	27	18
List C	19	9	8	60 <sup>a</sup>	7
List D	12	12	11	9	12
Other	-	2	8	4	11

*Source:* Prepared on the basis of the annual reports of the Director General and information provided by the UNIDO secretariat.

<sup>a</sup> In 2010, figures for lists A and C were consolidated in the reporting.

115. In accordance with the UNIDO Constitution, geographical diversity is one of the factors to be considered when recruiting employees, together with the highest standards of efficiency, competence and integrity. The Inspectors acknowledge certain conditions specific to UNIDO, such as the budgetary and recruitment restrictions that are likely to continue in the coming years and the low number of professional posts actually subject to monitoring. However, considering the structure and the composition of the UNIDO workforce and keeping in mind financial feasibility, the Inspectors suggest that UNIDO management intensify its efforts to recruit on a wider geographical basis not only staff members but also experts and consultants under ISA. Such an approach, which gives a broader scope for action, would be in line with General Assembly resolutions in which the Assembly stresses that consultants should be attracted and drawn from the widest possible

<sup>48</sup> IDB.15/4 and PBC/AS.3/4: Personnel matters, Report by the Director General.

geographical basis.<sup>49</sup> An action plan should be prepared with concrete measures aimed at increasing geographical diversity in the workforce with regard to staff and ISA categories and at promoting the accountability of recruiting managers.

116. The following recommendation is expected to help enhance geographical diversity at UNIDO.

#### **Recommendation 7**

**The Director General should develop an action plan, containing monitoring measures, aimed at improving the geographical diversity of the UNIDO workforce, and report regularly to the Industrial Development Board on its implementation, starting at its forty-sixth session in 2018.**

#### *Gender balance*

117. The UNIDO secretariat has had a Gender Policy since 2009. In the most recent version, issued in 2015, gender mainstreaming and equal representation of women are stressed as key priorities within the Organization.<sup>50</sup> In addition, the Gender Equality and Empowerment of Women Strategy for 2016-2019 was presented to the General Conference in 2015.<sup>51</sup> However, figures indicate that the gender measures have not produced significant results, despite an encouraging trend in the professional category (see annex IV). The United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) indicated that, as at December 2013, the representation of women was lower in the UNIDO secretariat than in the United Nations system organizations overall with regard to each grade in the director and professional categories.<sup>52</sup> The predominance of male representation within the director and professional categories has persisted, with only the P-3 level achieving near parity in 2016. The imbalance among senior managers is pronounced and should be rectified, building on some progress made at P-4 and P-5 levels. Gender imbalance is also present in the appointments of experts and consultants under ISA.

118. During the present review, UNIDO management affirmed its commitment to improving gender balance. The goal stated in the Gender Policy is to achieve parity within the secretariat; however, no specific time frame has been indicated. The Inspectors took note of the appointment of a gender coordinator at the P-4 level in 2014. Given the limitations on resources for implementing and monitoring the progress of the gender policy, UNIDO management has concentrated on measures having limited costs, such as awareness-raising initiatives on gender parity and gender sensitivity, mentorship opportunities for female staff and the designation of gender focal points.

119. With the current trend, parity seems a difficult goal to achieve within a reasonable time frame. The Inspectors call upon UNIDO management to intensify its efforts in this area, to the extent permitted by its financial situation and taking into account the lessons learned from the implementation of existing measures and their impact, without waiting for the conclusions and recommendations of the independent evaluation of the Gender Policy planned for 2019. In particular, the policy can be complemented by an action plan that would allow for the monitoring of gender-promoting measures, and help ensure the accountability of recruiting managers at all levels. In doing so, considering the workforce structure, UNIDO management should assess which measures could be extended to the experts and consultants hired through ISA to improve gender balance of the workforce as a whole.

120. The following recommendation is expected to help enhance gender balance at UNIDO.

#### **Recommendation 8**

**The Director General should develop an action plan, containing monitoring measures, aimed at improving the gender balance of the UNIDO workforce that would complement the Policy on Gender Equality and the Empowerment of Women, and report regularly to the Industrial Development Board on its implementation, starting at its forty-sixth session in 2018.**

<sup>49</sup> General Assembly resolutions 53/221, section VIII, and 67/255, section VI.

<sup>50</sup> UNIDO/DGB/(M).110/Rev.2.

<sup>51</sup> GC.16/8 and General Conference resolution GC.16/Res.3: UNIDO, Gender equality and the empowerment of women.

<sup>52</sup> A/69/346 and Corr.1.

### *Individual service agreement holders*

121. The 2012 Framework for the Recruitment and Administration of Personnel under Individual Service Agreement<sup>53</sup> consolidated an array of previously dispersed policies and administrative issuances governing the recruitment and administration of non-staff personnel (international and national consultants, local support personnel and ad hoc workers). The Inspectors welcome the consolidation as a step towards producing a single contractual modality for all categories of non-staff personnel.

122. However, it appears that day-to-day requirements induce practices that are not fully aligned with the rules. The present review highlighted several problems with the consistency of practices (remuneration schemes applied, entitlements granted) and the level of adherence to mandatory provisions (duration of contracts, respect of maximum duration, functions/tasks assigned, evaluation of performance). UNIDO management should further increase oversight of the use of ISA contracts to ensure that policy provisions are strictly adhered to and respected.

123. Table 11 contains a breakdown of expert- and consultant-related expenditures for 2014-2016 according to the source of funds used (for a breakdown by the main components of the secretariat, see annex IV). In 2016, UNIDO spent more than €45 million on consultancy. Most of these appointments bring specialized expertise to technical assistance programmes and projects. However, the review revealed that this contractual modality covers a larger spectrum. The composition of several organizational units of the Office of the Director General and Policy and Programme Support demonstrated heavy reliance on ISA holders. UNIDO management, as indicated by senior officials, is aware that the services of consultants are used extensively for tasks that should be done by the Organization's professional staff. JIU has maintained a long-standing position against the use of such contractual modalities to cover permanent functions, as the practice is not consistent with the United Nations employment policy or with labour best practices.<sup>54</sup>

**Table 11: Expenditures related to individual service agreements (millions of euro)**

	2014	2016
Contracts funded from regular and operational budgets	2.1	1.9
Contracts funded from technical cooperation funds	34.3	44
<b>Total</b>	36.4	45.9

Source: Information provided by the UNIDO secretariat. See also annex IV.

124. There was no uniformity in the inputs provided by the ISA holders for this review. Many have long been working for UNIDO in various positions on successive contracts and were positive about their experience, especially young professionals. However, dissatisfaction was reported regarding a number of issues: lack of job security, absence of career opportunities, inconsistency of the remuneration scheme or entitlements in successive contracts, and undue work pressure. Some more serious aspects were also flagged, such as excessive discretionary power of managers and perceived cases of harassment.

125. A number of well-known potential drawbacks for organizational effectiveness and efficiency arise from an extensive use of non-staff personnel. Mandatory contract breaks, high rotation rates and short-notice planning may create operational instability in organizational units. Managers also pointed to the hidden costs of consistent induction and learning curves of junior consultants who lack proper command of institutional memory and procedures. Increased dependence on external expertise to produce substantive work may be a risk in terms of quality assurance and institutional knowledge. Finally, given their uncertain status, such a high proportion of ISA holders may create difficulties in the adherence to the provisions on conflict of interest and code of conduct, for example in the areas of evaluation or procurement.

126. The Inspectors reviewed a sample of files of ISA holders. Mandatory items, such as job description, curriculum vitae, medical forms and the conflict of interest statement, were properly recorded. Job descriptions for selection and recruitment were uneven: although context and background information for the position were

<sup>53</sup> UNIDO/AI/2012/02; see also UNIDO/AI/2016/5.

<sup>54</sup> JIU/REP/2014/8: Use of non-staff personnel and related contractual modalities in the United Nations system organizations.



generally well detailed, the expected outputs and deliverables were sometimes too general and did not include clear indicators of achievement. Reports on performance of ISA holders were rarely found in personal files despite specific policy provisions mandating their inclusion.

127. In terms of reporting, an appendix to the annual report of the Director General covers the category of experts and consultants. It includes statistics on the number of appointments in geographical and gender categories. **Considering the extensive use of this contractual modality, the Inspectors believe that there is a need for more analytical reporting thereon.** This could include, inter alia, the following elements: organizational cost of total ISA contracts; weight and trends in the workforce of each of the main components of the secretariat; types of main functions assigned; and information on exceptions to the policy provisions. **Such enhanced qualitative reporting, as made possible by the ERP system, would help clarify organizational needs and facilitate the adjustment of the workforce, as and where necessary. It would enable the Industrial Development Board to exercise closer oversight of the use of non-staff personnel through regular reviews.**

## **B. Performance management and learning**

### *Performance management*

128. The current online staff performance management system was introduced in 2012 following a pilot phase. The intention was to strengthen the link between individual career development goals and the Organization's objectives, and to emphasize results-orientation and accountability as essential components of performance evaluation. A new feature was the introduction of a 360-degree feedback mechanism.

129. As a good practice, UNIDO management created an interdivisional review group to oversee consistency and compliance. As a result, the compliance rate improved from less than 80 per cent to almost 100 per cent. Managers and staff interviewed acknowledged persistent challenges regarding the application of the performance management system, in particular concerning the harmonization of the evaluation criteria across the Organization for similar jobs, the selection of peers for the 360-degree feedback and the respect for time frames. Sixty per cent of respondents found that their performance was appraised in a timely manner, with transparency and objectivity. However, some respondents questioned whether the performance management system in its current form was an effective management tool, particularly with regard to career development. **It is important for UNIDO management to review the system and assess if it is an adequate and effective tool, in particular in regard to recognizing good performance and correcting underperformance. Particular attention should be given to the 360-degree methodology.**

130. UNIDO rewards staff performance through specific mechanisms, such as a system for granting individual or collective merit awards, both of a financial and non-financial nature. Among these, a merit promotion constitutes a personal promotion (not affecting the grade or functional title of the post). It can be granted only to individuals in established posts financed from the regular budget and whose performance has consistently exceeded expectations. An administrative instruction sets out the conditions for such merit promotions and outlines the mechanisms for ensuring objectivity (eligibility criteria, nomination and review process). JIU does not advocate such personal promotions as they deviate from the United Nations common system practices and are conducted outside of the regular placement and recruitment process. If maintained, the implementation of such a mechanism must be strong, uniform, controlled and transparent. According to the JIU survey responses, it is not always perceived as such.

131. ISA holders are not subject to the same performance appraisal system. Many ISA holders commented that the evaluation of their performance was rarely communicated to them; others indicated that they were not aware whether or how it had been conducted. **The Inspectors call on UNIDO management to ensure that line managers conduct proper performance assessments of ISA holders, not limited to an administrative procedure for payments of wages and fees. Considering the workforce structure, proactively managing and recording the performance of ISA holders will contribute to the Organization's efficiency, in particular when such personnel are hired through separate successive contracts.**

## Learning

132. The budget appropriation for training for 2016-2017 amounted to €668,800, representing roughly 0.5 per cent of the staff expenditures, which is considered a low ratio in the United Nations system. In addition, UNIDO contributes to the joint languages training programmes (\$70,000). UNIDO management acknowledged that, given the prevailing financial situation, learning opportunities and procedures are not well funded. At the same time, because external recruitment is rare, it is important to keep the existing internal set of competencies and skills up to date. Staff responding to the JIU survey flagged their concerns in this area. Many did not consider current training and learning opportunities adequate to upgrade their skills and competencies and did not find them adapted to career development. Language training represents almost 50 per cent of the training hours, as shown in table 12.

**Table 12: Training information (2015)**

	Number of courses	Number of participants	Training hours	Percentage
Language training	32	148	7 104	44.6%
Technical competencies upgrading	29	360	3 738	23.5%
Information technology training	78	620	2 298	14.4%
General competencies upgrading	29	284	1 750	11%
Executive/management development	4	130	968	6.1%
Work-life balance/staff welfare	2	14	36	Less than 1%
Orientation for headquarters and field staff	1	8	32	Less than 1%
Total	175	1 564	15 926	

Source: Prepared on the basis of the 2015 annual report of the Director General (UNIDO, document IDB.44/2-PBC.32/2 2016), appendix J.

133. According to the UNIDO secretariat, the 2010 policy on learning<sup>55</sup> is currently under review. In the opinion of the Inspectors, this process should be closely linked to the assessment of the strengths and weaknesses of the workforce. **The Inspectors suggest establishing a programme of mandatory training for all staff members, as it does not currently exist in UNIDO.** The programme should be based on corporate requirements to create a baseline for a common foundation of skills and competencies. Other organizations of the United Nations system usually complement such a core programme with modules targeted to and specialized for functional profiles, i.e. for senior managers, field representatives, line managers and staff in technical areas such as procurement, human resources, fraud risk assessment and information and communications technology. **UNIDO management should also consider setting a minimum number of training days per year for its staff, and include it as part of the performance appraisal system to encourage continuous learning.**

## C. Staff-management relations

134. Staff-management relations are regulated by the Staff Regulations (art. V) and Staff Rules – 100-Series (chap. V). The Staff Union represents all staff members and has about 400 paying members, a representation level of roughly 85 per cent. The Staff Council is the executive organ of the Union. Staff representatives are members of several joint consultative bodies that address staff-related matters, such as appointment and promotion or appeals, as well as of joint bodies for common services.

135. Both UNIDO management and the staff representatives assessed the quality of the staff-management relations positively. The assessment was partially confirmed by the results of the JIU survey (see table 13), although some employees would like to see a more proactive approach in addressing staff concerns. The Inspectors noted positive comments about the relations between the staff representatives and executive-level management. However, they also recorded a series of remarks suggesting room for improvement in relations at the working level between line managers and various categories of employees. The president of the Staff

<sup>55</sup> UNIDO/DGB/(M).117.

Council co-chairs town hall meetings convened by the Director General. This is seen as a good arrangement even though it has not yet triggered more active participation from employees. Managing Directors should also be encouraged to attend these meetings, as suggested by a number of respondents to the JIU surveys and during interviews.

**Table 13: Opinion of UNIDO staff members on staff-management relations (percentage of respondents)**

	Agree	Mostly agree	Neither agree nor disagree	Mostly disagree	Disagree
I think staff representatives support staff complaints and grievances in their relations with management in the workplace	12.8	30.3	35.5	12.5	8.9
I think staff representatives are appropriately involved by management in major decisions affecting staff	11.3	24.1	41.9	13.5	9.2

Source: JIU survey of UNIDO staff members (2016).

136. Individual service agreement holders are not members of the Staff Union. In practice, they can informally resort to some services of the Staff Council. This arrangement does not include access to services reserved for fee-paying members, such as legal advice and cultural or commercial offers. Inputs received from ISA holders suggested that this issue requires attention. **Considering the structure and composition of the workforce, the Inspectors encourage UNIDO management and staff representatives to assess the current modalities and ensure that ISA holders have appropriate channels for communicating their concerns.**

#### *Conflict resolution*

137. UNIDO does not have an ombudsman to facilitate independent and informal conflict resolution. There are several tools to address staff concerns prior to their escalation to the formal internal justice system. The primary channels are through the Department of Human Resources Management, staff representatives or a staff counsellor. The Inspectors noted that conflict resolution is being addressed in the process of revising the Human Resources Management Framework with the objective of strengthening a preventive approach. This is well warranted, since concerns in this area were expressed to JIU by staff members and ISA holders. **In this context, the Inspectors welcome the recent issuance of the corporate policy on harassment to complement the Code of Ethical Conduct. Additionally, it may be advisable for the Director General to consider options to provide ombudsman services for UNIDO employees, possibly through exploring joint or shared arrangements with another United Nations system organization in Vienna.** Finally, all informal conflict resolution provisions should be consolidated into a single administrative instrument clearly outlining what services are available, the respective roles of each actor involved and the rules applied to various categories of the workforce. This could also help to raise the level of awareness of the role and functions of the staff counsellor, who is an external consultant appointed by the Organization, which was found to be insufficient among the staff according to the JIU survey (see table 14).

**Table 14: Opinion of UNIDO staff members on conflict resolution (percentage of respondents)**

	Agree	Mostly agree	Neither agree nor disagree	Mostly disagree	Disagree
I think UNIDO provides staff with effective internal mechanisms and procedures to prevent and resolve conflicts and grievances in the workplace	11.3	25.1	34.9	18.0	10.7
I think the staff counsellor at UNIDO provides an effective informal way of preventing/solving conflicts	11.6	18.3	52.9	8.3	8.9
I think the Joint Appeals Board provides an effective channel to challenge administrative decisions	11.3	23.6	51.7	7.0	6.4

Source: JIU survey of UNIDO staff members (2016).

138. The formal justice system mainly comprises the Joint Disciplinary Committee and the Joint Appeals Board, both established under the Staff Rules, and the UNIDO administration, represented by the Director General. The International Labour Organization Administrative Tribunal is also part of this framework.

139. The function of the Joint Appeals Board is to consider and advise the Director General on appeals filed by staff members against administrative decisions. The Joint Appeals Board reviews between 5 and 10 appeals per year. The number of cases escalated to the International Labour Organization Administrative Tribunal has usually been fewer than five per year. It was not possible for the Inspectors to assess the effectiveness of the Joint Appeals Board as an appeal mechanism, as UNIDO management did not share the relevant information about the outcomes of the appeals for confidentiality reasons.

## VII. INFORMATION AND COMMUNICATIONS TECHNOLOGY AND INFORMATION MANAGEMENT

140. Placed within PPS, the Department of Information Technology and Communications was established in 2016 to ensure a better integration of information management into business systems and the ERP system. The Department also includes the advocacy and communications division. At the time of the review, the Department was under the supervision of the Managing Director of Policy and Programme Support in the absence of a separate director position due to financial constraints. **In the view of the Inspectors, it is advisable that the Department be headed by a director with specialized expertise as a chief information technology and information management officer.**

### *Information and communications technology governance*

141. UNIDO does not have a specific organization-wide information and communications technology (ICT) committee. During the PCOR, an ad hoc project board served as a dedicated governance body focusing on ERP development and implementation. ICT strategic governance is a responsibility of the Executive Board; its terms of reference include reviewing the progress of ERP implementation and providing strategic direction. The summary records of the meetings of the Executive Board over the past three years showed that, after the deployment of the ERP system, ICT was not a priority among its many responsibilities. **The Inspectors suggest the establishment of an organization-wide ICT working group reporting to the Executive Board. It should ensure that ICT requirements and priorities are taken into account, and support the Executive Board in its strategic decisions.** It should cover issues such as ICT corporate strategy, information technology expenditures, investment priorities in the programme and budgets, information security and hosting, and promote an inclusive approach at the operational level on issues such as desktop migration and software harmonization.

142. The current Information and Communication Technology Policy, issued in 2011, formalizes the rules governing the use of ICT resources across the Organization for purposes such as information management, data confidentiality, and security. It is good practice to update such a substantive document on a regular basis. This seems particularly appropriate for UNIDO, considering the significant changes that have occurred in the Organization's information technology environment in recent years, particularly with the deployment of the ERP system. **The Inspectors concur with the external auditor's recommendation to issue and implement a comprehensive updated official document that takes into account the current state of technology and outlines UNIDO policy relative to information technology.<sup>56</sup> The document should cover the main principles governing information management at UNIDO.** In this context, a draft records management policy shared with the Inspectors should be finalized to complement the existing documents management guidelines.

143. The following recommendation is expected to enhance the effectiveness of information technology and information management at UNIDO.

### **Recommendation 9**

**The Director General should issue an updated information technology and information management policy, and set up an organization-wide working group to assist the Executive Board in overseeing the implementation of the policy and in providing strategic direction in this area.**

### *Enterprise resource planning system*

144. The enterprise resource planning system was implemented over the period 2010-2013 as part of the PCOR change management initiative, and was designed to have a scope broader than simply introducing a new information technology system. The ERP system enables managers and staff to perform management and administrative processes through one integrated system that is accessible from headquarters and field locations. It facilitates management and administration in areas such as human resources, travel, finance, procurement and logistics. The portfolio and project management module is particularly innovative and has made notable contributions to real-time management of and reporting on UNIDO activities.

<sup>56</sup> IDB.44/3-PBC.32/3.

145. In 2014 and 2016, UNIDO management conducted two surveys to measure the level of satisfaction of users (staff members and consultants), at headquarters and in the field, concerning the implementation of the ERP system. The results were encouraging: the overall satisfaction rate was 68 per cent in 2016, an increase of 2 per cent as compared to 2014; a similar assessment was supported by the JIU survey. It is a good practice to conduct such organization-wide surveys regularly, at least once every two years, to help capture the users' level of satisfaction and experience and to identify areas for improvement for the system and its related support services. This practice has prompted some adjustments to the system since its launch, in response to users' concerns about its speed and the quality of the interface. The Inspectors encourage UNIDO management to continue this practice and ensure that the feedback translates into tangible improvements for the users to the greatest possible extent.

146. In 2014, UNIDO management reported to the Industrial Development Board on savings and efficiency gains produced by the ERP system, achieved mainly in the areas of administration and procurement.<sup>57</sup> The methodology applied was to calculate the financial value of staff positions removed from the budget. Other benefits brought by the system were unquantifiable or lacked baseline information and were therefore communicated in narrative form.

147. Subsequently, a brief summary of enhancements envisioned by UNIDO management was presented to the Board in 2015. It included indications of the resources required to further reduce operational and administrative costs in several management and administrative areas split across several modules.<sup>58</sup> However, the funding was not provided. UNIDO management indicated that it was working on innovative financial mechanisms to mobilize resources for implementing the enhancements. In 2016, an initial amount of €500,000 was provided from the Major Capital Investment Fund for the development of modules for contract and invoice management and the new International Civil Service Commission compensation package. The Inspectors encourage the secretariat to build concrete and convincing business cases to demonstrate short- and long-term benefits of the proposed new modules and thereby garner support.

### *Knowledge management*

148. While some initiatives in the area of knowledge management have been undertaken recently, such as the issuance of an intellectual capital report and a glossary on knowledge management and knowledge-sharing, no organization-wide policy on knowledge management has been promulgated. In addition to the Department of Information Technology and Communication, which manages the systems and the infrastructure (ERP system, OpenText, intranet), several other units are listed in the Director General's bulletin describing the structure of the secretariat as having some responsibility for knowledge management.

149. **In the Inspectors' view, UNIDO management should build on past initiatives to finalize a corporate knowledge management policy to help systematically capture and disseminate information, in particular for technical cooperation projects and in the context of its research and normative activity.**<sup>59</sup> The policy, which should be based on an assessment of knowledge management needs and existing resources, will help establish guidance for managers and employees and raise awareness of their role and responsibility in identifying and safeguarding the specialized knowledge created or received in the course of their activities. The significant use of consultants is further reason to institute knowledge management as a means of knowledge transfer and institutional memory given the temporary nature of the contracts of consultants.

150. The knowledge management and collaboration module of the enterprise resource planning system provides a suitable tool to develop knowledge management in the Organization. **The appointment of a focal point on knowledge management responsible for the implementation of the policy and the monitoring of knowledge resources could help strengthen the knowledge management culture and organizational learning across the Organization.**

<sup>57</sup> IDB.42/8: Efficiency gains achieved through the implementation of the Programme for Change and Organizational Renewal, Report by the Director General.

<sup>58</sup> IDB.43/9/Add.1: Medium-term programme framework, 2016-2019, addendum to the proposal by the Director General.

<sup>59</sup> See JIU/REP/2016/10: Knowledge management in the United Nations system (recommendation 1).

## VIII. OVERSIGHT FRAMEWORK

151. The Office of Internal Oversight and Ethics (IOE) and the Office of Independent Evaluation and Quality Monitoring (EVQ) provide the internal oversight services for UNIDO. Their work is complemented by the external auditor and the Joint Inspection Unit as external oversight mechanisms. Within this oversight framework, the respective roles and responsibilities are delineated by decisions of member States, secretariat policies and specific terms of reference. UNIDO management stressed its commitment to ensuring strong coordination among the oversight bodies, notably in terms of work planning and information-sharing, to avoid duplication and secure efficient use of resources.

### A. Office of Internal Oversight and Ethics

#### *Internal audit*

152. The Office of Internal Oversight and Ethics is located within the Office of the Director General and covers three functions: internal audit, investigation and ethics. The Office is governed under the UNIDO financial regulations and rules,<sup>60</sup> as well as its charter, revised in 2015.<sup>61</sup> The internal audit function is intended to provide the Director General with independent, objective assurance advice designed to add value to and improve UNIDO operations.<sup>62</sup> The budgeted capacity of the Office for 2016-2017 comprised one director, two professional auditors, one professional investigator and two support staff but, at the time of the finalization of the present report, IOE was operating with its director, the investigator and the two support staff (no professional auditors) to cover, as per its mandate, all UNIDO activities regardless of their source of funding (assessed or voluntary contributions) and their location (headquarters or field). The scope of the Office also includes the common services provided by UNIDO to other Vienna-based organizations. This represents roughly 200 auditable entities and an estimated financial base worth more than €300 million.

153. The Office uses a risk assessment methodology to identify the auditable entities, processes, functions and organizational units that should be prioritized in the short list for its programme of work, owing to its finite level of resources. The elements considered for qualitative assessment include strategic, operational and financial risks, risks of non-compliance with policies, fraud, litigation, security and safety and reputational risks. Risk elements such as financial flows, perceived state of internal control, prior assurance work, change in key personnel and impact of the implementation of the ERP system are used. In line with professional standards, this risk assessment is updated every year.

154. According to available information, the Office produced 27 audit reports since 2010 until the end of 2016. In the annual work plans communicated to the Director General, the Director of IOE has repeatedly pointed out that the existing level of internal human and financial capacity may impair the Office's ability to adequately cover the high-risk areas and entities identified in its risk assessment. The external auditor echoed the same concern.<sup>63</sup> The Inspectors concur with the view that the Director General should take appropriate measures to strengthen the overall capacity of the internal audit function to increase its coverage of the critical risks as identified.

155. The Office adheres to the International Professional Practices Framework promulgated by the Institute of Internal Auditors and performs a quality assessment of its own work on a regular basis through a self-assessment followed by an external independent validation. The most recent exercise, undertaken in 2014, found that the UNIDO audit function generally conforms to professional standards and is in compliance with the requirements of its main donors.<sup>64</sup> **The Office should consider supplementing this practice with a formal peer review to further assess its overall compliance with professional norms and standards in executing its main functions. This could help in enhancing the credibility of the internal audit function among the member States.**

<sup>60</sup> Regulation 9.1 (d) and rule 109.1.15.

<sup>61</sup> UNIDO/DGB/(M).92/Rev.3.

<sup>62</sup> Ibid., para. 4.

<sup>63</sup> IDB.43/3-PBC.31/3, para. 107.

<sup>64</sup> External quality assessment of internal audit activities of the Office of Internal Oversight Services, disseminated by interoffice memorandum on 8 April 2014.

### *Investigative function*

156. The investigative function of the Office is governed under its charter and the Investigation Guidelines (2012),<sup>65</sup> which are based on the best practices in the United Nations system and on generally accepted investigation standards contained in the Uniform Guidelines for Investigations endorsed at the fourth Conference of International Investigators. Other relevant documents include the Policy on Fraud Awareness and Prevention (2013) and the Policy on protection against retaliation for reporting misconduct or cooperating with audits and investigations (2010).<sup>66</sup> The Office has one dedicated position for a professional investigator.

157. The Office receives or detects cases of alleged irregularity, wrongdoing, waste of resources and violation of regulations and rules, as well as scams. It assesses, through a preliminary evaluation, whether they fall under its mandate. The majority of the cases are closed or dismissed after the first screening. Comments collected from a number of respondents to the JIU surveys indicated a perceived absence of follow-up actions on alleged wrongdoing. Only half of the respondents said they felt comfortable to report an incident of harassment or discrimination in their work unit. **UNIDO management should assess whether the implementation of the new policy which defines the procedure for the reporting and investigation of alleged harassment,<sup>67</sup> helps to alleviate this perception by staff.** UNIDO management needs to identify the concrete reasons for this perception. It may also consider steps to upgrade the current investigation guidelines to a broader formal document on the corporate investigation policy.

### *Ethics function*

158. The ethics function was introduced in March 2010 following the promulgation of the Code of Ethical Conduct<sup>68</sup> and the appointment of a focal point for ethics and accountability. The position was first filled as a full-time D-1/L-6 post and subsequently assigned in 2013-2014 to a retiree on a part-time basis due to budgetary constraints. In February 2016, the function was transferred to the UNIDO Senior Coordination Officer (Ethics and Security) as an additional part-time responsibility. Administratively, the position was placed in the Office of Internal Oversight and Ethics, with limited resources allocated to the ethics programme (€13,100). At present, the main ethics and accountability functions of the Office are outlined in the Director General's bulletin on the secretariat's structure. The duties of the Senior Coordination Officer are described in his dual job profile (security and ethics).

159. The current arrangement seems neither satisfactory nor effective. A 2010 JIU report indicated that a dual-function role with an ethics component was not the most appropriate.<sup>69</sup> In the current situation, it looks challenging for the incumbent to fulfil all his roles as delineated in several policy documents. **The Inspectors encourage the Director General to review the present arrangement to ensure independence, visibility and operational capacity for the position of Ethics Officer. Another option might be to consider a joint or shared ethics office with another United Nations system organization in Vienna.** In the interim, proper terms of reference should be issued to specify in greater detail the incumbent's mandate and responsibilities as regards the ethics function. These should be aligned with the JIU recommendations to ensure the independence of the Ethics Officer's reporting line to the executive head and governing bodies, to define the scope of activities and to introduce a term limit for exercising the function.

### *Oversight products and recommendations*

160. Until November 2016, IOE was disseminating its findings and recommendations through audit reports addressed to the Director General, providing copies to the specifically audited managers for action and to the external auditor. The latest information available concerning the status of implementation of audit recommendations shows that 38 per cent of the recommendations issued since 2010 are pending, in particular those issued during the period 2014-2015. One attempt to make progress in this regard were the presentations

<sup>65</sup> UNIDO/DGAI.19.

<sup>66</sup> UNIDO/DGB/(M).94/Rev.1 and UNIDO/DGB/(M).116, respectively.

<sup>67</sup> DGB/2016/13: Prohibition, prevention and resolution of harassment, including sexual harassment, discrimination and abuse of authority.

<sup>68</sup> UNIDO/DGB/(M).115.

<sup>69</sup> JIU/REP/2010/3: Ethics in the United Nations system.



made by the Office's Director to the Executive Board in 2015 and in 2016, which flagged important pending recommendations, categorized by main areas of the Organization's activities, where action was needed.

161. The Inspectors noted the recent decision of the Industrial Development Board to distribute the audit reports, as well as the management response, to member States.<sup>70</sup> This development should be reflected in the charter of the Office of Internal Oversight and Ethics. UNIDO management indicated that this decision would also cover the presentation of the Office's annual summary report to the governing bodies. This would align UNIDO with good practices in place in most United Nations system organizations. The annual report should contain a summary of activities and main findings of the Office and elaborate on audit plans and major risks, as well as on new and outstanding recommendations. It is also an opportunity to provide comments on any issues that may have an impact on the effectiveness of the internal oversight function.

## **B. Office of Independent Evaluation and Quality Monitoring**

162. Since 2016, the Independent Evaluation Division and Quality Monitoring Division have been co-located in the same office. The intention was "to consolidate two complementary but separate analytical functions supporting continuous improvement, accountability, learning and the results-based management framework," as stated by UNIDO management in its response to the JIU questionnaire. However, this organizational arrangement raised concerns among professionals, as well as among representatives of some member States, considering that each division intervenes at different stages of the programmatic activities and their co-location may affect the independence and objectivity of the process.

### *Independent evaluation function*

163. The current UNIDO Evaluation Policy was promulgated in 2015.<sup>71</sup> It complies with evaluation norms and standards in the United Nations system and describes, among other things, the types of evaluations conducted, the in-house roles and responsibilities, the evaluation principles, the evaluation management process and the follow-up mechanisms. The Independent Evaluation Division conducts thematic and country evaluations, as well as project evaluations when their nominal value exceeds \$1 million or when an evaluation is mandatory as per institutional arrangements with partners. In the recent past, both an external peer review (2010)<sup>72</sup> and the 2014 JIU report on the evaluation function in the United Nations system<sup>73</sup> assessed positively the maturity of the evaluation function at UNIDO.

164. In terms of human and financial resources, there has been little fluctuation since 2010. However, while resources have remained static, the Organization's activities and its portfolio of projects have significantly expanded, implying the need for more complex evaluations. With a declining ratio of resources to workload, managing evaluations has become a challenge. **The Inspectors believe that allocating sufficient resources to independent thematic and country evaluations, as well as required project evaluations, is important in order to continue to support the culture of evaluation within UNIDO and to ensure proper decision-making and knowledge management.** In this regard, it should be noted that the Industrial Development Board has consistently reiterated its support for the evaluation function and the use of evaluation results in management decisions and strategic planning.

165. Evaluation reports are circulated according to their scope and focus: strategic evaluations are addressed to the executive management, and project evaluations to project managers. UNIDO managers were described as reasonably receptive to evaluation findings and recommendations. The rates of acceptance and implementation are monitored by the Office of Independent Evaluation and Quality Monitoring. The comparative analysis for 2012-2015 showed a high level of manager responses within the mandatory one-year period and a high rate of acceptance, while the figures relative to implementation remained lower.

166. In general, the Inspectors observed a high level of transparency in evaluation findings and recommendations. The Independent Evaluation Division presents a report on evaluation activities on a biennial

<sup>70</sup> Board decision IDB.44/Dec.3: Establishment of an effective and functionally and operationally independent Office of Internal Oversight.

<sup>71</sup> UNIDO/DGB/(M).98/Rev.1.

<sup>72</sup> Peer Review of the Evaluation Function of UNIDO (2010).

<sup>73</sup> JIU/REP/2014/6: Analysis of the evaluation function in the United Nations system.

basis pursuant to a decision taken by the Industrial Development Board in 2004, which affirmed the importance of member States receiving objective and credible feedback on the performance of UNIDO country-level programmes based on independent evaluations.<sup>74</sup> The report is complemented by a conference room paper that provides further insight into the findings and lessons learned. In accordance with the evaluation policy, members of the Board comment on the report, and may propose ad hoc evaluations, both of specific projects and programmes and of thematic areas, as they see fit. In addition, the Independent Evaluation Division provides a briefing twice a year to delegates on the thematic and country evaluations. As a good practice, the evaluation policy, the Office work programme and the evaluation reports are posted on a dedicated website for public use.

### *Self-evaluation*

167. While projects whose nominal value is over \$1 million are subject to mandatory independent evaluation, in theory, smaller scale projects are covered by self-evaluation.<sup>75</sup> It is the responsibility of programme and project managers and their line managers to fund and conduct such self-evaluations. To support them, the Independent Evaluation Division produced a number of guidance documents; however, it has no capacity to closely follow the self-evaluations. As acknowledged by UNIDO management, the practice is uneven, since self-evaluations are in heavy competition with other priorities of project managers, who mostly see self-evaluation as a closing formality. However, during the preparation of the present review, several project managers shared the view that they had been able to make positive use of self-evaluation in their interaction with donors, either to ensure continued support for existing projects or to launch new projects on the basis of demonstrated evidence of success. The Inspectors believe that more logistic and financial support for self-evaluations would contribute to reinforcing the capacity of UNIDO to demonstrate the results of its projects and work.

## **C. Independent Audit Advisory Committee**

168. The establishment of an audit advisory committee has been suggested by successive external auditors since 2003. JIU has also advocated for such a committee as an important governance and oversight requirement for the United Nations system organizations. Therefore, the Inspectors welcome the Industrial Development Board's decision of November 2016 establishing the Independent Audit Advisory Committee as a means to strengthen the UNIDO oversight framework and to serve as an interface between the Office of Internal Oversight and the governing bodies.<sup>76</sup> The Committee's terms of reference are aligned with those of similar bodies in the United Nations system, with the primary objective to assist the governing bodies in fulfilling their mandate to oversee the management of the Organization. The Committee can also contribute to reinforcing the credibility of the secretariat's internal oversight activities and management practices in general.

## **D. External auditor**

169. The external auditor is appointed by the General Conference. The provisions for external audit are laid down in article XI of the Organization's financial regulations and rules; additional terms of reference for the external auditor were annexed to the regulations in 2006.<sup>77</sup> The external auditor provides independent oversight and is authorized to perform such audit of the accounts of the Organization, including all trust funds and special accounts, as he/she deems necessary and to make observations with respect to the economy, efficiency and effectiveness of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

170. The external auditor serves for a period established by the General Conference, typically two years, and may be appointed for successive terms. Since 2014, the function has been exercised by the Federal Court of Auditors of Germany. On two occasions, an external auditor has served for four consecutive terms (eight years). The Inspectors concur with the notion that periodic rotation enhances the external auditor's

<sup>74</sup> Board decision IDB.29/Dec.7: Activities of the Evaluation Group.

<sup>75</sup> There are specific provisions for projects under the Global Environment Facility.

<sup>76</sup> Board decision IDB.44/Dec.4: Establishment of an Independent Audit Advisory Committee.

<sup>77</sup> DGB.74/Rev.2.

independence and provides a variety of experience that is beneficial for an organization, as indicated in the 2010 JIU report on the audit function in the United Nations system.<sup>78</sup>

171. The reports of the external auditor, together with the audited financial statements, are shared with all governing bodies. They are transmitted through the Programme and Budget Committee to the Industrial Development Board, which in turn forwards them to the General Conference with further comments as deemed appropriate. The Board has consistently recognized the contribution of the external auditor to improving UNIDO management, operations and performance.<sup>79</sup> UNIDO management characterized the cooperation with the external auditor as “seamless” in terms of deadlines, reporting lines and follow-up modalities.

172. The external auditor has provided unqualified audit opinions on the UNIDO financial statements since 2010. The unqualified opinions are accompanied by long-form reports with comments on specific areas that merit attention. In recent years, the external auditor has highlighted risks associated with the growing proportion of voluntary contributions, understaffing of the oversight function, common services among Vienna-based organizations, and a range of problems with the ERP reporting system.

### E. Joint Inspection Unit

173. JIU has provided independent external oversight, with a focus on system-wide issues, to UNIDO since 1986, when the Industrial Development Board accepted the JIU statute.<sup>80</sup> On the basis of the guidelines endorsed by the General Assembly in 1999,<sup>81</sup> the Board approved in 2001 a pilot scheme regarding the follow-up process for JIU recommendations.<sup>82</sup> For many years this ensured proper consideration of reports and recommendations, presented together with comments by UNIDO management. Since 2013 the UNIDO secretariat has been using the JIU online system to report on acceptance and implementation.

174. As a result, UNIDO management was able to report a rate of acceptance of JIU recommendations above 85 per cent for the period 2013-2015. The level of implementation of the recommendations accepted was close to 60 per cent, while 34 per cent of the remaining recommendations were reported to be in progress.<sup>83</sup> These figures were confirmed in a 2016 JIU management letter in which cooperation with UNIDO on this matter was reviewed.<sup>84</sup> In the letter, the rate of acceptance and implementation of JIU recommendations by UNIDO was characterized as above the average rates of the participating organizations.

175. However, the rule on page limitation for official documentation introduced as of the forty-second session of the Board, in 2014, has affected the quality of the reporting on JIU matters. The report of the Director General on the activities of JIU no longer includes the summary of JIU findings and recommendations or the comments of UNIDO management thereon. Instead, delegates are invited to visit the JIU website and its online tracking system to access relevant information. This procedure requires pre-registration through the UNIDO secretariat’s focal point on JIU matters. These supplementary procedural steps may affect the ability of member States to effectively exercise their oversight responsibilities. Following the issuance of the above-mentioned JIU management letter, UNIDO secretariat indicated that it had reconsidered the reporting modalities to the Board to ensure that, as of its forty-fifth session, management comments are provided to member States.

176. Another area for possible improvement concerns the way the Industrial Development Board considers JIU reports. **The Inspectors call on the Board to clearly indicate in its decisions whether it accepts the JIU recommendations and instruct the secretariat to implement them. This would place UNIDO in line with the provisions of the JIU statute and the relevant resolutions of the General Assembly.**

<sup>78</sup> JIU/REP/2010/5: The audit function in the United Nations system.

<sup>79</sup> See, for example, Board decision IDB.44/Dec.3.

<sup>80</sup> Board decision IDB.1/Dec.22: UNIDO participation in the Joint Inspection Unit.

<sup>81</sup> General Assembly resolution 54/16 and A/52/34.

<sup>82</sup> IDB.24/18 and Board decision IDB.24/Dec.11: Activities of the Joint Inspection Unit.

<sup>83</sup> IDB.44/14: Report of the Director General on the activities of the Joint Inspection Unit.

<sup>84</sup> JIU/ML/2016/15: Review of acceptance and implementation of JIU recommendations by UNIDO.

## IX. FIELD PRESENCE

177. The field presence of UNIDO has evolved since 1967, when it was established. Over the years, the Organization has used various modalities to deploy its workforce, initially as Senior Industrial Development Field Advisors and Country Directors who worked in cooperation with UNDP resident representatives. As of 1998, UNIDO finances its field offices through its regular and operational budgets (more than €10 million in 2016-2017). Funding is sometimes also provided through cost-sharing agreements or contributions by host Governments or other beneficiaries. The field presence eventually expanded to comprise a network of regional and country offices, as well as UNIDO desks embedded in UNDP offices (as part of a cooperation agreement that was terminated in 2010) and UNIDO focal points. The present review was conducted during the ongoing phased implementation of a major restructuring of the field network. Because of these structural changes, which were introduced at the time of the finalization of the report, the Inspectors reviewed the field presence in broad and forward-looking terms.

### *Regulatory framework*

178. The General Conference and the Industrial Development Board have adopted a series of resolutions and decisions on the field presence focused on the operationalization aspects of the network. The objectives of the UNIDO field presence are stated in paragraph 106 of the MTPF (2016-2019): “The field network and regional programmes ensure programmatic coherence of UNIDO’s services at the country and regional levels in the context of its thematic programme framework towards inclusive and sustainable industrial development and effectively respond to the specific and differentiated development needs of Member States. UNIDO in the field maintains close contact with all local stakeholders including international organizations, locally based donor organizations, regional economic organizations, and private sector entities at the country and regional levels, and promotes the Organization as an effective partner for development”.

179. In responses to the JIU survey, the members of the Board provided a range of opinions on the clarity of the mandate and the effectiveness of the field presence (see table 15). Similar diversity in opinions was expressed during interviews. This suggests that the membership may need to revisit the subject from a strategic perspective and redefine an overarching approach to UNIDO field presence. The analysis of the official documentation shows a focus on its operational issues (budgetary constraints and office location) rather than on how it contributes to the overall objectives of the Organization.

**Table 15: Opinion of members of the Industrial Development Board on the field presence (percentage of respondents)**

	Yes, very much	Yes, partially	No opinion	Not sufficiently	Not at all
Are the mandates assigned to the UNIDO field presence clearly defined by the governing bodies?	28.5	33.5	14	24	0
Is UNIDO’s field presence effective in delivering its mandates?	4.7	47.5	23.9	23.9	0

Source: JIU survey of members of the Industrial Development Board (2016).

180. The Inspectors believe that the Organization would benefit from adopting a comprehensive vision of its field presence, in the light of the tasks emerging in connection with the implementation of the 2030 Agenda. Member States should define criteria for assessing the effectiveness of the field presence in terms of progress towards agreed goals. This guidance would help to better shape the field network and evaluate the financial resources necessary to support that vision. It would also support the secretariat in managing the field network.

181. The following recommendation is expected to enhance the effectiveness of the UNIDO field presence.

**Recommendation 10**

**The General Conference is invited to adopt a comprehensive vision of the UNIDO field presence as an integral part of the Organization's role in implementing the 2030 Agenda, including a set of criteria to assess its effectiveness.**

*Field office network*

182. When work on the present JIU review was initiated, the field network was composed of nine regional offices, 21 country offices and 17 UNIDO desks and focal points. Due to budgetary constraints, the Director General submitted in 2015 a field policy action plan to the General Conference in order to rationalize the network,<sup>85</sup> and presented a report on its operationalization to the Industrial Development Board in 2016.<sup>86</sup> The Board acknowledged the adjustments to the field network made following a severe budgetary reduction of approximately €4.6 million.<sup>87</sup> This rationalization came as an addition to the gradual decline, as of 2005, of the headquarters-based capacity to support field offices. In accordance with the latest restructuring (see table 16), the field architecture includes three types of offices: regional offices hubs headed by a director (5), regional offices headed by a senior international professional staff (4) and country offices run by senior international (10) or national officers (28). Country offices replaced the UNIDO desks but five Focal points are kept. The overall number of 47 UNIDO field entities remained unchanged. Although not formally part of the field presence, UNIDO maintains Liaison Offices in Brussels, Geneva and New York.

**Table 16: Structure of UNIDO field presence (2016)**

	Africa	Arab region	Asia & the Pacific	Europe & Central Asia	Latin America & the Caribbean
Regional office Hubs	2	1	1	--	1
Regional offices	1	--	2	--	1
Country offices	16	6	9	2	5

Source: Information provided by the UNIDO secretariat.

183. As stated in the report of the Director General, the restructuring will ensure “continued support to the programmatic interventions of UNIDO in the respective countries, and (...) structural or staffing changes would not in any way diminish the relationship with key stakeholders.”<sup>88</sup> It is expected that the number of countries covered will not change even though the modalities for such coverage will have to evolve. However, it seems a challenging objective to reach. Some UNIDO offices already operate with extremely limited capacity and resources; under the action plan, a number of international staff in the field will be replaced by national officers, who will assume the task of running country offices. The Inspectors believe that further reductions in the budget allocated to the field presence may not be consistent with maintaining an effective network capable of representing UNIDO and promoting its agenda at the local level.

184. The 2016 Director General's bulletin on the Secretariat's structure provided a general description of the roles and responsibilities of the regional and country offices in the revamped network, as well as the modalities of their interactions with headquarters. Their functions, which are broad and vary in nature, include: representation, analysis of national development priorities, programme and project formulation, resource mobilization, reporting and outreach. **UNIDO management should use the redeployment of the network as an opportunity to produce or update the terms of reference for each of the field network entities to complement the existing annual work plans. The terms of reference should be tailored to the regional or national context in which the office operates and related to relevant UNIDO activities.** They should emphasize the prioritized objectives in line with allocated capacity. In the opinion of the Inspectors, the scope

<sup>85</sup> GC.16/6: UNIDO field policy and network. Action plan proposed by the Director General.

<sup>86</sup> IDB.44/7-PBC.32/7: Operationalization of the field policy action plan. Report by the Director General.

<sup>87</sup> Board decision IDB.44/Dec.11: UNIDO Field Policy and network.

<sup>88</sup> IDB.44/7-PBC.32/7, para. 4.

and number of present and expected future operations in the respective regions and countries should guide decisions on establishing or maintaining the presence.

185. A critical component of the updated terms of reference would be to demonstrate how each office contributes to the achievement of the mandate assigned to the field presence. The members of the Industrial Development Board who participated in the JIU survey rated the current level of performance of the field offices as either average (50 per cent of respondents) or above average (30 per cent). During interviews and through survey comments, representatives of member States provided assessments of the performance of the field network entities, ranging from positive to critical. Their primary concern seemed to be the quality of the technical cooperation projects delivered in their respective countries, which is not a full responsibility of the field office, as projects are centralized at the level of programme managers at headquarters. The Inspectors believe that having clear terms of reference for the field offices could help in better assessing and demonstrating individual performance against assigned priorities. This would be in line with the Board's emphasis on the need to monitor the workload and performance of individual field offices following the restructuring.<sup>89</sup>

### *Coordination*

186. Managers and field representatives acknowledged in interviews that ensuring close and effective relations between Programme Development and Technical Cooperation and the field presence has been an ongoing challenge. The organizational placement of the field offices and the divisions responsible for their coordination has changed over time, switching between technical cooperation and external relations. As of 2016, the field offices are administratively placed in the Department of Regional Programmes and Field Representation. The Department is comprised of five regional divisions, which oversee the network of the field offices in Africa, the Arab region, Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean. These divisions are responsible for defining regional strategies and programmatic priorities, to ensure that UNIDO services respond to the specific needs and requirements of the member States. The regional divisions serve as a principal channel of communication with the network of field offices.

187. Some comments provided during the review suggested that coordination between PTC project managers, the Department of Regional Programmes and Field Representation and field staff should be improved both in their regular activities and information sharing. The Industrial Development Board requested the Director General to clarify the role of field offices in technical cooperation and resource mobilization.<sup>90</sup> Inputs from staff provided a working-level perspective on coordination and suggested space for improvement (see table 17). In the past, an annual meeting of field representatives at headquarters was reported as promoting greater coherence but has been discontinued. UNIDO secretariat reported that recently basic coordination and info-sharing mechanisms using new technologies were revived and a global teleconference with field offices is to be held on a bi-annual basis.

**Table 17: Responses from UNIDO staff members on whether there is sufficient coordination between headquarters and the field (percentage of respondents)**

	Agree	Mostly agree	Neither agree nor disagree	Mostly disagree	Disagree
All staff	8.4	20.7	34.1	23.6	13.2
Headquarters staff	6.7	20.5	38.2	22.3	12.3
Field staff	15.3	21.6	16.9	29.3	16.9

Source: JIU survey of UNIDO staff members (2016).

188. In the view of the Inspectors, the restructuring of the field network provides an opportunity to promote a more coordinated approach to organizational and field network activities. This should include relations with donors and national authorities, as well as information-sharing among the respective organizational units. It is

<sup>89</sup> Board decision IDB.44/Dec.11.

<sup>90</sup> Ibid.

also a chance to produce an updated version of the field manual that reflects the landscape emerging from the 2016 restructuring and to review the instruments for delegation of authority to field representatives.

*Independent evaluation of the field office network*

189. UNIDO management is monitoring its field presence through regular reports presented by the Director General to the governing bodies. A comprehensive independent evaluation was conducted in 2011-2012<sup>91</sup> and a field office generic assessment framework was produced in 2010 to serve as part of the country-level evaluations.<sup>92</sup> IOE conducts several field office audits per year. The Inspectors believe that, following the implementation phase of the restructuring, an independent evaluation of the field network should be conducted to assess the results. In particular, the evaluation should indicate whether the new structure and the resources allocated to it are adequate to fulfil its role and functions spelled out by the Director General: (a) effective interaction with Governments, local partners and stakeholders; (b) effective participation in the United Nations system activities; (c) smooth implementation of technical cooperation activities; and (d) the presentation of the comparative advantages of UNIDO at the country and regional levels.<sup>93</sup> **In this context, the Inspectors recommend conducting an independent evaluation of the role and the effectiveness of the network of field offices in achieving the objectives set by the field policy action plan and to present it to the Industrial Development Board at its forty-eighth session in 2020.**

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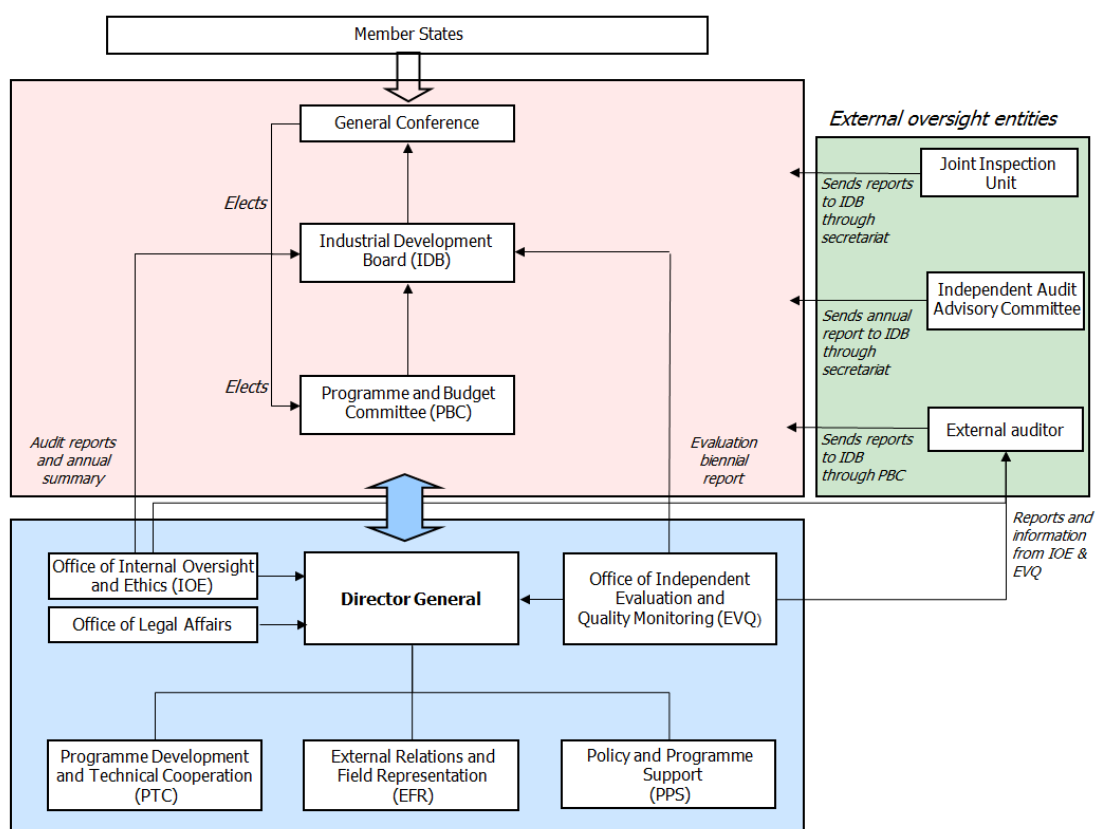
<sup>91</sup> Independent Thematic Evaluation: UNIDO Field Office Performance (ODG/EVA/11/R.66).

<sup>92</sup> Ibid., annex B.

<sup>93</sup> IDB.44/7-PBC.32/7, para. 5.

## Annex I: Governance

### A. Governance framework



Source: Prepared on the basis of the UNIDO Internal Control Framework.

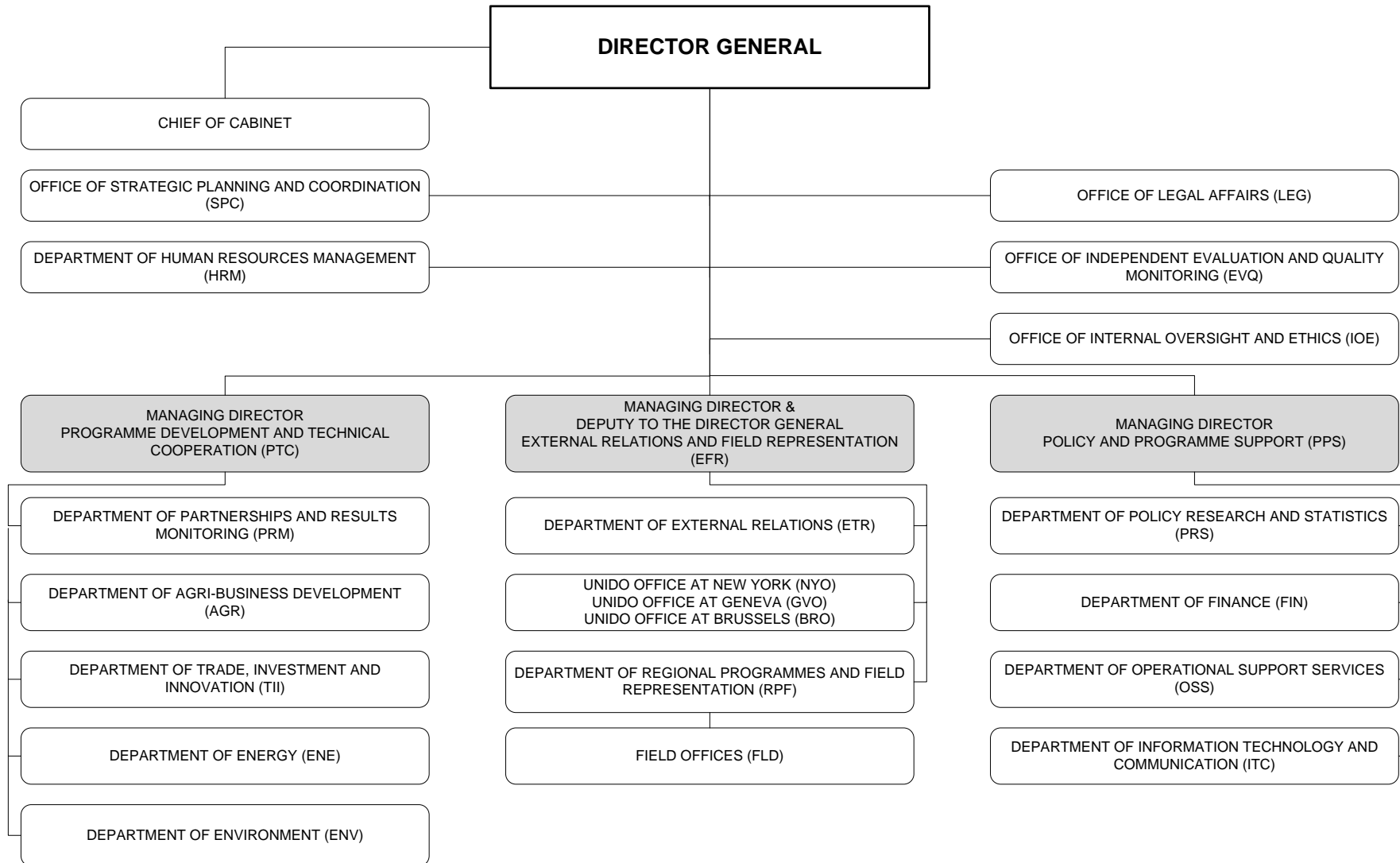
### B. Overview of the documentation of UNIDO governing bodies

Governing body	Year	Number of sessions	Number of days	Number of documents	Number of pages	Number of conference room papers	Number of pages of conference room papers
General Conference	2015	1	4	24	178	6	36
	2011	1	5	37	320	6	73
Industrial Development Board	2015	1	2	25	203	6	91
	2011	1	3	36	563	7	101
Programme and Budget Committee	2015	1	3	19	229	8	108
	2011	1	3	23	229	7	137

Source: Information provided by the UNIDO secretariat.



## Annex II: Organizational chart (2016)



### Annex III: Financial data

#### A. Evolution of UNIDO resources, 2000-2001 to 2016-2017

Biennium	Regular budget (millions of euro)	Operational budget (millions of euro)	Regular and operational budget (millions of euro)	Voluntary contributions (millions of United States dollars)
2000-2001	130.6	28.3	158.9	154.3
2002-2003	137.9	22.4	160.3	175.5
2004-2005	145	21.8	166.8	234.3
2006-2007	154	20.2	174.2	246.6
2008-2009	159.6	22.1	181.7	281.4
2010-2011	161.8	22.8	184.6	420.4
2012-2013	157.9	28.9	186.8	330.9
2014-2015	147.3	32.8	180.1	384.4
2016-2017	138.9	34.1	173	420 (estimate)

Source: Programme and budgets documents and information provided by the UNIDO secretariat.

#### B. Balance of thematic trust funds and special accounts as at December 2016

Partnership Trust Fund (euro account)	€17 778
Partnership Trust Fund (United States dollar account)	\$4 025 106
Trust Fund Trade-Related Capacity Building	€869 644
Trust Fund to increase food security through agribusiness and agro-industry promotion	€537 000
Trust fund for Renewable Energy for Productive Uses	€36 311
Trust Fund for youth employment	€23 134
Trust Fund for Latin America and the Caribbean	€92 869
Special Account of Voluntary Contributions for Core Activities	€9 385
Major Capital Investment Fund	€810 211

Source: Prepared on the basis of information provided by the UNIDO secretariat.

## Annex IV: Human resources

### A. Gender balance information (2010 versus 2016)

Category	2010					2016				
	F	%	M	%	All	F	%	M	%	All
DG	–	0.0	1	100.0	1	–	0.0	1	100.0	1
D-2	1	16.7	5	83.3	6	1	33.3	2	66.7	3
D-1	9	25.0	27	75.0	36	3	16.7	15	83.3	18
	10	23.3	33	76.7	43	4	18.2	18	81.8	22
P-5	11	15.5	60	84.5	71	15	24.6	46	75.4	61
P-4	16	24.6	49	75.4	65	24	35.8	43	64.2	67
P-3	28	38.9	44	61.1	72	22	42.3	30	57.7	52
P-2	9	60.0	6	40.0	15	1	20.0	4	80.0	5
P-1	7	63.6	4	36.4	11	–	–	–	–	–
	71	30.3	163	69.7	234	62	33.5	123	66.5	185
Non-core staff members (L)	–	–	–	–	–	12	42.9	28	70.0	40
National Professional Officers (NO)	9	26.5	25	73.5	34	12	27.9	31	72.1	43
General Service (GS)	219	54.9	180	45.1	399	180	51.7	168	48.3	348
Total personnel with staff member status	309	43.5	401	56.5	710	270	42.3	368	57.7	638
Internationally-recruited ISA holders	430	30.5	976	69.5	1 406	276	31.0	605	69.0	881
Locally recruited ISA holders	364	27.1	1 032	73.9	1 396	620	37.0	1 070	63.0	1 690
Total ISA holders	794		2 008		2 802	896	35.0	1 675	65.0	2 571

Source: Prepared on the basis of the annual reports of the Director General and information provided by the UNIDO secretariat.

**B. Expenditures related to individual service agreements (in euro)**

<b>Contracts funded from regular and operational budgets</b>	<b>2014</b>	<b>2016</b>
Programme Development and Technical Cooperation	900 043	402 543
Policy and Programme Support	586 746	469 211
External Relations and Field Representation	377 540	464 277
Office of the Director General	262 633	197 514
Appointment for sessions of policymaking organs	2 951	-
Subtotal	<b>2 129 914</b>	<b>1 894 987</b>
<b>Contracts funded from technical cooperation funds</b>		
Programme Development and Technical Cooperation	31 331 224	40 584 303
Policy and Programme Support	863 974	1 110 854
External Relations and Field Representation	1 512 576	1 706 895
Office of the Director General	526 964	629 093
General Conference	31 333	-
Subtotal	<b>34 266 071</b>	<b>44 031 145</b>
<b>Total amount for contracts funded from regular, operational budget and extrabudgetary resources</b>	<b>36 395 985</b>	<b>45 926 132</b>

*Source:* Prepared on the basis of information provided by the UNIDO secretariat.

## Annex V: Technical cooperation

### A. Technical cooperation activities, by thematic priority, as at December 2016 (in millions of United States dollars)

Thematic priority	2016 budget	2016 expenditures
Safeguarding the environment	140.65	38.4
Creating shared prosperity	29	36.5
Advancing economic competitiveness	33.8	97.8
Cross-cutting services	6.7	5.9
<b>Total</b>	<b>210.1</b>	<b>178.6</b>

*Source:* Information provided by the UNIDO secretariat.

### B. Technical cooperation activities, by region, as at December 2016 (in millions of United States dollars)

Regional scope	2016 budget	2016 expenditures
Africa	38.5	67.2 <sup>a</sup>
Arab region	29.1	10.8
Asia and the Pacific	79.3	44.9
Europe and Central Asia	16.8	16.8
Latin America and the Caribbean	15	11.4
Global and interregional	31.4	27.5
<b>Total</b>	<b>210.1</b>	<b>178.6</b>

*Source:* Information provided by the UNIDO secretariat.

<sup>a</sup> As communicated by the UNIDO secretariat, voluntary contributions are defined as approved project budget allotments, including increases and decreases, during a given calendar period.

## Annex VI: Joint Inspection Unit surveys

In accordance with its standard practice for management and administrative reviews, the Joint Inspection Unit (JIU) sought the views and opinions of the main categories of UNIDO stakeholders on various aspects covered by the present report. Four online surveys were conducted, addressed to the following audiences: (a) members of the General Conference, (b) members of the Industrial Development Board, (c) UNIDO staff members and (d) holders of an individual service agreement as at January 2016. Each survey combined multiple-choice and open-ended questions to elicit suggestions and qualitative inputs. The surveys resulted in a rich set of opinions and perceptions that were used to inform the report, as appropriate. The participation rate of the surveys was found to be statistically representative of the respective audiences, with the exception of the survey addressed to members of the General Conference, which did not attract a sufficient level of responses.

### Participation in the Joint Inspection Unit online surveys (September and October 2016)

	Recipients	Respondents	Participation rate
UNIDO staff members	616	372 (321 complete)	60.4%
ISA Holders	1 590	970 (911 complete)	61%
Members of the Industrial Development Board	51	23 (20 complete)	45.1%
Members of the General Conference	171	13 (13 complete)	7.6%

### Surveys addressed to member States

Representatives of member States were surveyed on two levels: the entire membership was consulted in a survey distributed to all members of the General Conference, while the members of the Industrial Development Board received a separate survey on matters specific to that governing body. Opinions expressed by members of the Board were mostly positive about the Organization, particularly regarding technical cooperation activities. That survey also reflected a positive assessment of the UNIDO secretariat.

### Survey addressed to UNIDO staff members

The survey addressed to staff members yielded a 60 per cent response rate; the table below shows the response rate disaggregated by staff category and by location. The response rate in the professional category reached 81 per cent. It is worth noting that close to half of the respondents have been working at UNIDO for more than 10 years, and over 75 per cent for more than six years. The respondents to the survey thus have been present and worked through significant organizational restructurings since 2005. They provided a long-term perspective and an informed insight into the Organization.

### Participation in the Joint Inspection Unit survey, by main categories of staff and location

	Recipients	Respondents	Participation rate <sup>a</sup>
Director	27	17	63.6%
Professional	190	154	81.1%
General Service	366	158	43.2%
Vienna headquarters	495	297	60.0%
Field network offices	165	75	45.5%

<sup>a</sup> Estimated on the basis of the figures contained in the 2015 annual report of the Director General (IDB.44/2-PBC.32/2, appendix I).

Overall, there was a positive assessment of the UNIDO work environment. However, staff questioned the availability, within their units, of human and financial resources needed to carry out their functions. The qualitative and quantitative responses demonstrated various degrees of satisfaction or dissatisfaction with career development opportunities, promotion and merit policies within the Organization.

Recurring comments pointed to constant restructuring and policy changes, which staff members saw as obstacles to the efficiency of processes and effectiveness of the Organization, in particular in terms of the difficulties faced in coping with management changes. In this context, many staff argued for greater transparency in communicating management decisions and consistency in their application.

JIU analysed a total of 314 written comments from staff respondents. These were related to work environment (71), overall management (57), human resources management (52), staff management and relations (46), general comments (46), organizational structure (33) and administration (26).


### **Survey addressed to ISA holders**

The survey of individual service agreement holders facilitated input from the individuals who are not UNIDO staff, but who nonetheless make up a significant proportion of the Organization's workforce. Overall, ISA holders provided a positive assessment of their employment with UNIDO, with the exception of a more nuanced response regarding procedures for conflict resolution and processing complaints. Although quantitatively there was satisfaction regarding different aspects of the ISA contract, a few common concerns emerged in the written feedback section, including the technical problems associated with the payment modalities and the lack of benefits after several years of service and numerous consecutive contracts with the Organization. Altogether, JIU analysed 541 open-ended responses from ISA holders.

**Annex VII: Overview of actions to be taken by participating organizations on the recommendations of the Joint Inspection Unit (JIU/REP/2017/1)**

		Intended impact	United Nations, its funds and programmes															Specialized agencies and IAEA														
			CEB	United Nations*	UNAIDS	UNCTAD	ITC	UNDP	UNEP	UNFPA	UN-Habitat	UNHCR	UNICEF	UNODC	UNOPS	UNRWA	UN-Women	WFP	FAO	IAEA	ICAO	ILO	IMO	ITU	UNESCO	UNIDO	UNWTO	UPU	WHO	WIPO	WMO	
Report	For action		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	For information		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Recommendation 1		f																							L							
Recommendation 2		c																							E							
Recommendation 3		i																							L							
Recommendation 4		i																							E							
Recommendation 5		f																							E							
Recommendation 6		f																							E							
Recommendation 7		i																							E							
Recommendation 8		i																							E							
Recommendation 9		f																							E							
Recommendation 10		f																							L							

**Legend:** L: Recommendation for decision by legislative organ E: Recommendation for action by executive head

 : Recommendation does not require action by this organization

**Intended impact:** a: enhanced transparency and accountability b: dissemination of good/best practices c: enhanced coordination and cooperation d: strengthened coherence and harmonization e: enhanced control and compliance f: enhanced effectiveness g: significant financial savings h: enhanced efficiency i: other.

\* As listed in ST/SGB/2015/3.