

**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**



**Response  
by  
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**to the  
Assessment of UNIDO  
conducted by  
The Department for International Development  
Under the  
Multilateral Aid Review**

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## Summary

- There are several shortcomings in the DFID review which are material to the ultimate conclusion reached. The review overlooks much of UNIDO's contribution to UK and international aid objectives, and some of its findings on UNIDO's organizational strengths are inaccurate. This may in part be because no fact-finding visit to UNIDO headquarters or field operations took place in the course of the review.
- The review recognizes UNIDO's contribution to **wealth creation** through support for small and medium enterprises (SMEs), but does not adequately acknowledge UNIDO's unique support for trade capacity-building. UNIDO is the largest provider of trade-related technical assistance in the UN system. As a result of in-depth field evaluations of ongoing programmes in Asia and Africa, partnership with the European Commission in this area has grown in volume terms from about \$18 million to over \$100 million in the past five years.
- About 60% of UNIDO's portfolio focuses on **climate change mitigation and environmental sustainability**. This comprises action to improve international environmental governance and major programme activities, including under the Global Environment Facility. UNIDO chairs UN-Energy and leads the campaign for the achievement of global goals on affordable access to clean energy and energy efficiency. The Montreal Protocol Fund has consistently rated UNIDO as the most effective implementing agency.
- Other contributions are also underestimated, particularly humanitarian services to post-crisis recovery and rehabilitation in **fragile States**, including Iraq, the countries of the Mano River Union and Southern Sudan.
- The review undervalues the scale of UNIDO's operations by defining these in volume delivery terms only. With a **lean structure** UNIDO provides value through policy advice, its convening and normative functions, and the provision of demonstration projects.
- UNIDO is one of the most reformed UN agencies, and has been consistently commended for this by Member States, including the UK. In its 2005 Multilateral Effectiveness Framework, DFID ranked UNIDO highest among standard-setting agencies. It has shed more than fifty percent of its staff, has pegged its budget to zero real growth, yet has doubled TC delivery. In 2010 its total portfolio of TC activities amounted to US\$ 385.5 million.
- UNIDO compensates for its size by strong partnerships with other international organizations. It has steadily supported moves towards **UN system-wide coherence** and Delivering as One initiatives.
- Among the inaccuracies relating to organizational strengths, the review alleges that UNIDO has no disclosure policy. On the contrary, such a policy exists and is overseen by the Focal Point for Ethics and Accountability.
- The above points suggest that a more thorough, better-informed, and less a priori review would have led to a score closer to 4.
- The UK's assessed contribution to UNIDO, which is reported as 100% overseas development assistance (ODA), amounts to €153,076 per annum. This represents approximately 9 per cent of UNIDO's regular budget, but only 0.00081% of overall UK ODA.

## **Background**

On 8 February 2011, the Director of the International Relations Division of the Department for International Development (DFID) informed UNIDO that, as a result of the findings of its multilateral aid review (MAR), the Government would announce to Parliament on 1 March 2011 its intention to withdraw from UNIDO. This withdrawal would take effect from 31 December 2012. This paper describes the findings of the review and provides a detailed response by UNIDO.

## **MAR criteria**

The MAR is said to measure effectiveness of United Kingdom multilateral development partners against two main criteria: (a) contribution to UK development objectives, and (b) organizational strengths. The likelihood of positive change against the various findings is also addressed.

Contribution to UK development objectives is defined through a number of components, namely:

- (1) Critical role in meeting development objectives, including internationally-agreed development goals and DFID priorities, i.e.:
  - a. Wealth creation (growth generation, stimulation of the private sector and trade, infrastructure);
  - b. Governance and security;
  - c. Direct delivery of the MDGs;
  - d. Climate change (mitigation and adaptation);
  - e. Response to humanitarian disasters.
- (2) Attention to three designated cross-cutting issues: fragile contexts, gender and climate change.
- (3) Focus on poor countries, according to a DFID-designed index.
- (4) Contribution to results (at country level).

Meanwhile, the organizational strengths criterion looks at:

- (5) Strategic and performance management, including clarity of mandate, effectiveness of governance and leadership, use of evaluation and results-based management (RBM).
- (6) Financial resources management.
- (7) Cost and value consciousness.
- (8) Partnership behaviour.
- (9) Transparency and accountability.

According to DFID, the MAR examined a range of existing documents and undertook selected field missions in order to gather data for its findings. It also took into account inputs from UK-based civil society groups and others yet unknown. UNIDO was asked to supply an overview paper limited in size to four pages. There was no assessment visit to UNIDO headquarters. Attempts were made by UNIDO country representatives to meet DFID staff during their field assessments, the location and timing of which were not directly supplied by DFID. Unfortunately, these meetings could not take place as UNIDO was informed that DFID preferred to meet certain designated partners only.

## **MAR conclusion and UNIDO's response**

The MAR found that UNIDO plays a useful role in supporting wealth creation in SME sectors and in country-level interventions in support of its norms and standards role. UNIDO rated well in terms of leadership; reform; cost and value consciousness; and partnership with governments, other UN agencies and the private sector. The report noted, however, that while UNIDO has a good record, and is likely to improve further in areas such as results-based management, the scale and scope of UNIDO's activities mean it is unlikely to become significant to the fulfillment of DFID objectives. It therefore justified the decision to withdraw on the grounds that the Organization's criticality to DFID objectives was "limited by size and niche".

UNIDO values its partnership with the United Kingdom in support of common development objectives and regrets the decision taken, which it submits is not justified by examining evidence against the criteria set in the MAR. The conclusion arrived at by DFID is based on a very restricted interpretation of UNIDO's role. Further, it does not take into account the catalytic effect of UNIDO programmes, particularly in its specialist advice and capacity development role, as well as how these contribute to the achievement of internationally-agreed development goals and DFID priorities. The following is a detailed response to the MAR findings. Further information and clarification on any of these responses is available on request.

### **Detailed response**

#### **Contribution to UK Development Objectives**

##### **1a. Critical role in meeting international objectives**

###### **DFID finding**

- + UNIDO's niche in the multilateral system is providing technical inputs for small and medium sized enterprise (SME) development and it has played a useful role in several countries by connecting SMEs with wider trade opportunities.
- + There is good evidence of UNIDO supporting country-level interventions that link to its norms and standards role, e.g. follow-up to Montreal Protocol.
- UNIDO's criticality in achieving the MDGs is limited by its small niche and the small scale of its country operations.

###### **UNIDO response**

- UNIDO's role is considerably broader than providing technical inputs for SME development. It is unique as the pro-enterprise agency of the UN. It concentrates on wealth creation through clean, private-sector led, productive activities. It achieves this through providing developing countries with policy advice, institutional capacity-building and specialized technical support for the reduction of poverty through sustainable economic development.
- UNIDO was always intended to be more a catalyst than a funding agency. Though its activities include technical cooperation at the country level, including demonstration projects, the effective provision of specialist expertise and policy advice to fill knowledge gaps is

central to its role. UNIDO strategic inputs are highly valued by both developing countries and important donors (for example, the current joint AU-EU strategy for Africa draws on UNIDO support for the African Union Action Plan for the Accelerated Industrial Development of Africa (AIDA) and the African Agro-business and Agro-industries Development Initiative (3ADI)).

- UNIDO aid delivery has nevertheless more than doubled in the last decade, despite a lean structure and large-scale staff reductions in the 1990s. The total portfolio of technical cooperation activities stood at \$385.5 million in 2010.

### **1b. Critical role in meeting UK aid objectives**

#### **DFID finding**

+ UNIDO makes a useful contribution to wealth creation in a range of SME sectors.

- UNIDO's criticality is limited by the small scope of its programmes.

- With one exception, UNIDO country operations have not attracted voluntary funding from DFID offices in recent years.

#### **UNIDO response**

- This finding is inaccurate. UNIDO also has a strong role in climate change mitigation and also supports the achievement of the other DFID priority areas. And because UNIDO programmes encompass low-cost specialist expertise and capacity development, their scope is wider than the finding suggests.
- UNIDO supports wealth creation, not only through SME activities, but also through highly catalytic interventions. Examples include entrepreneurship curriculum development in a range of sub-Saharan countries; large programmes on agro-industrial development programmes (3ADI outlined above); investment policy services; and institution-building to support developing country compliance with product standards in trade.
- UNIDO's role in climate change and the environment has been overlooked. Its network of Resource Efficient and Cleaner Production Centres (RECPCs), in partnership with UNEP, supports governments and the private sector in efficient resource use and minimization of emissions. At the policy level, UNIDO assists developing countries in strategies for low-carbon industry and industrial energy efficiency.
- UNIDO supports the implementation of multilateral environmental agreements. UNIDO has been responsible for 34% of the ozone depleting substances eliminated from developing countries and has consistently been rated the most effective implementing agency by the Multilateral Fund for the Montreal Protocol as the most effective implementing agency.
- UNIDO's Director-General is the designated coordinator on energy issues in the UN system. UNIDO chairs the UN-Energy network and has elaborated global goals for clean energy access and energy intensity as chair of the Secretary-General's Advisory Group on Energy and Climate Change (which has a private sector component).
- Many donors value UNIDO's activities in DFID priority areas such as trade capacity-building and environmental sustainability. This is underlined by UNIDO's expanding partnerships with the European Commission, Italy, Norway, Switzerland, and others.

- While UNIDO welcomes dialogue with donors on objectives, it is guided by principles of country-led development, as contained in the Paris Declaration on Aid Effectiveness.

## **Attention to cross-cutting issues [in programmes]**

### **2a. Fragile contexts**

#### **DFID finding**

+ Staff undertake training on conflict resolution and conflict management.

- No evidence of an approach tailored to fragile states.
- Working in fragile states does not appear to be a focus area.

#### **UNIDO response**

- UNIDO Member States, through its governing bodies, have given a clear role to the Organization in the context of fragile states. This is defined as post-crisis rehabilitation, i.e. stabilizing and rebuilding productive capacities in industry following civil conflict or natural disaster.
- Some of UNIDO's largest-scale activities fall under this theme. UNIDO's single largest programme is post-conflict economic development in Iraq.
- In addition, UNIDO is working in partnership with Member States such as Japan and with the UN Human Security Trust Fund on major human security programmes in sub-Saharan Africa, including the countries of the Mano River Union and Southern Sudan.

### **2b. Gender**

#### **DFID finding**

- + Data is disaggregated at country level.
- + Gender policy has been updated.
- + Evidence that UNIDO uses partnerships to share knowledge.

- Not clear how attempts to strengthen gender awareness in the organization are contributing to gender equality results.
- No evidence found that gender is fully considered as part of project design, implementation, monitoring and evaluation.

#### **UNIDO response**

- Gender policy revision was the first step in ensuring a clear contribution to achieving gender equality and empowerment of women. This has now culminated in its incorporation into the enterprise resource planning system, with gender targets, monitoring and reporting included in all activities from 2011.

### **2c. Climate change and environmental sustainability**

#### **DFID finding**

- + UNIDO assesses the environmental impact of its projects.
- + Energy efficiency targets are in place at HQ, with some evidence of progress.

-No evidence of a climate change or environmental strategy in place that guides approach to project selection.

**UNIDO response**

- Energy efficiency and environmental sustainability are embedded in UNIDO's strategic plans, the Medium-term Programme Framework and the biennial Programme and Budgets. From 2011, relevant targets, monitoring and reporting are included in all projects and programmes.
- Further information on UNIDO's programme in environment and energy can be found above (see response to 1b).

**3. Focus on Poor countries**

**DFID finding (for specialized agencies as a group)**

- As a group specialized agencies spend 43% of their resources in the countries in the top quartile of an index that scores developing countries based on their poverty need and effectiveness (the strength of the country's institutions). This is low compared with most of the other multilaterals assessed by this index.

-In addition they spend significant resources in middle income countries with low absolute poverty numbers including upper middle income countries.

**UNIDO response**

- UNIDO is programmatically very well represented in the top quartile identified by DFID, and especially in the countries rated highest in terms of need and effectiveness. Full details can be provided on request.
- Numerous statements from countries identified by DFID attest to the value they place on UNIDO's advice, institutional capacity-building and specialized technical support. This support is highly catalytic and is not necessarily reflected in volume of delivery, as would be the case for a funding agency or humanitarian delivery organization.

**4. Contribution to results**

**DFID findings**

+ UNIDO's change management programme is leading to improvements in results reporting, including at country level. There are some good examples of delivery at country level.

-UNIDO's lack of a systematic approach to results-based management (RBM) and the fact that not all projects have results frameworks means that it struggles to demonstrate delivery against its objectives in a comprehensive way.

-While there are some good examples of country-level delivery UNIDO does not provide a compelling picture of its contribution to results.

**UNIDO response**

- UNIDO first introduced a results-based Programme and Budget in 2006. This has been gradually improved, so that now there is coherence between the Medium-term Programme

Framework, the biennial Programme and Budgets, and results at the project level. All projects and programmes are required to incorporate a logical framework for results.

- At country level, results are country-owned. UNIDO's contribution is to provide technical input, policy advice and institutional capacity-building to assist countries in achieving their development goals.

## **Organizational Strengths**

### **5. Strategic and Performance Management**

#### **DFID finding**

- + UNIDO has a clear mandate and generally effective governance structures.
- + It has an independent Evaluation Unit.
- + Human Resources (HR) processes are transparent and fair.
- + The Executive Director (ED) is regarded as an effective, competent leader.

- UNIDO's results framework and results-based management are weak.
- Follow up to evaluation and Joint Inspection Unit reports is weak.

#### **UNIDO response**

- UNIDO takes RBM very seriously. It was among the earliest specialized agencies to incorporate results-oriented planning into its strategic frameworks. As part of its change management programme, UNIDO is now further improving the aggregation of indicators from projects.
- There is a clear process for follow-up to evaluations, according to which a management response must be issued within a set period of time.

### **6. Financial Resources Management**

#### **DFID findings**

- +The policies and processes in place for financial accountability are generally good.
- +There is evidence of flexibility in funding mechanisms that allow for funding predictability and meeting unexpected demands.
- There is no clear system or criteria used to allocate aid amongst competing priorities.
- No evidence was found that UNIDO has a system in place to identify and manage poorly performing projects.
- The latest external audit report found that UNIDO could be more effective in managing funding risks.

#### **UNIDO response**

- As UNIDO is not a funding organization, the issue of allocating aid between priorities rarely arises. Technical cooperation, policy advisory work and normative activities are largely funded by thematically earmarked contributions that are geared to requests by beneficiary countries.



- In 2011 UNIDO will be only the second UN agency to deliver an audited financial report fully compliant with the International Public Sector Accounting Standards (IPSAS).
- UNIDO is in full compliance with all GEF fiduciary standards. These apply not just to GEF-related activities, but to all projects, and include a project-at-risk monitoring system.
- There appears to be a misunderstanding in the DFID finding on funding risks. As UNIDO is not a funding organization, the funding risk referred to by the external audit report relates to a diversification of funding sources. Senior management responded to this at the December 2010 meeting of the Industrial Development Board. Moreover, donor figures for 2010 show a continued wide variety by donor and theme.
- Assessed contribution payment rates are generally high. UNIDO is working actively and successfully with Member States in arrears on payment plans.

## 7. Cost and Value Consciousness

### DFID finding

- + Evidence from country reviews and other evaluations shows keen control of staff overheads and programme costs.
- + Procurement policy is regularly updated, with cost savings and value for money (vfm) approaches built into procurement practice.
- + There is good evidence that cost effectiveness is an important factor for UNIDO in deciding on investments at project level.
- + The governing body challenges management on vfm issues.
- + Implementation of the intranet-based procurement system will further improve efficiency and cost effectiveness of the procurement process.

-There is limited evidence that UNIDO supports partners to think about vfm.

### UNIDO response

- The DFID finding describes UNIDO as cost and value conscious.
- UNIDO has encouraged its Member States to support its change management programme, with the aim of providing better development results in a cost-efficient manner.

## 8. Partnership Behaviour

### DFID finding

- + UNIDO works well with governments at various levels and with the private sector.
- + It has a good reputation in the UN system as a partner.
- + There is evidence of good beneficiary engagement.

- There is limited evidence of how UNIDO applies a country-led approach or the extent to which UNIDO systematically uses partner country financial management systems or country procurement systems.

**UNIDO response**

- The DFID finding describes UNIDO as performing well on partnership behaviour. As a specialized, technical agency, UNIDO values partnerships with both public and private bodies to achieve common goals.
- UNIDO is committed to a country-led approach in project identification and formulation. It seeks to use local systems, although the circumstances in which this is possible are fewer than is the case for funding agencies or humanitarian aid organizations.
- UNIDO applies the financial management rules agreed by Member States flexibly in order to allow for greater use of country systems. For example, UNIDO is piloting the Harmonized Approach to Cash Transfers (HACT) and is actively participating on further harmonization of country-led business practices at HLCM and UNDG.

**9. Transparency and Accountability****DFID finding**

+ There is good representation of member states within a governance structure that is regarded as being effective and pragmatic.

+A mechanism is in place for Member States to lodge complaints.

+Senior management responds quickly and willingly to requests for more details on projects when asked.

-No evidence could be found of a specific disclosure policy or that UNIDO publishes key project information.

-No evidence could be found to show how complaints were followed up on and resolved.

-We could also find no evidence to show how UNIDO encourages transparency and accountability in delivery partners' recipients.

**UNIDO response**

- The DFID finding is inaccurate. UNIDO has a specific disclosure policy. A Focal Point for Ethics and Accountability was established in 2010 to implement and administer a range of new ethics-related policies, including policies for disclosure and whistleblower protection.
- The Focal Point also monitors global trends and best practices in the area of ethics, transparency and accountability, and proposes new initiatives or changes to ensure that UNIDO's practices reflect state-of-the-art approaches and are appropriate for its needs.
- Complaints are followed up on and resolved through UNIDO's policy-making organs.

**10. Likelihood of Positive Change****DFID finding**

+ UNIDO has shown a positive attitude to reform in key areas, especially in terms of clarifying its mandate and driving forward improvements in how the organisation reports on results.

+ The ED is regarded as an effective and strong leader, is responsive to the governing body's concerns, and has the confidence of the governing body.

+ UNIDO has a good track record at the country level of cost control.

-The UK's ability to influence the pace and scope of reform in UNIDO is limited.  
-There is little or no evidence that UNIDO could expand either the scale or scope of its activities to an extent that could make a critical contribution to UK development objectives.

=There are good grounds to expect that UNIDO's change management programme, supported by a pragmatic governing body, will improve its performance in some areas this review has highlighted, for example better results management. But there is no reason to believe that its contribution to the UK's development objectives could become critical, or even significant.

**UNIDO response**

- DFID's positive assessment on reform, leadership and cost, as well as the likelihood of further positive change where areas such as RBM are concerned, is welcome. UNIDO is in fact one of the most reformed UN agencies, having reduced its staff by fifty percent in the 1990s, re-focused its mandate on fewer activities and increased its programme volumes.
- A more active DFID role in UNIDO governing bodies would be welcomed both by the Secretariat and by other donors. There is every chance it would lead to greater influence over the pace and scope of reform and to even closer alignment with DFID priorities. In the early 2000s, DFID played a strong role in encouraging UNIDO reforms, and in 2005 rated UNIDO highest among standard-setting agencies in its Multilateral Effectiveness Framework.
- The scope of UNIDO's activities has been carefully agreed with Member States, and is well aligned with DFID priorities, especially on wealth creation and climate change. The effect of UNIDO's programmes, especially in specialist advice and capacity development, surpasses the volume of delivery, which has nevertheless doubled in the last decade.