



UNIDO-IFI PARTNERSHIP STRATEGY

1. Overview

Our vision is to deliver investment support services for the industrial sector to developing country governments, international financial institutions (IFIs), donors and the private sector.

The challenge

UNIDO is a niche agency. It implements around \$140 million worth of projects per year, a small amount compared to UNDP (\$3.2 billion), the World Bank (\$24 billion) and private sector capital flows to developing countries (c. \$300 billion). Even doubling or tripling the volume of UNIDO's implementation would hardly produce significant changes in our visibility. Increasing the impact of what UNIDO does requires a different approach – one that involves something other than simply spending money.

Meeting the challenge

There are three ways in which UNIDO can magnify the effect of its development assistance: by influencing or triggering investment decisions by other actors, including IFIs; by combining our technical assistance with that of other development agencies; and by using our projects to generate and disseminate knowledge about what works and what does not:

Feasibility studies: UNIDO is well placed to complement and strengthen the work of IFIs in industrial and private sector development. It can deliver independent, high quality advice on investment program design – advising either on the design of investment funds or on individual project proposals.

Joint technical assistance: At present UNIDO operates largely through stand alone projects. In many cases, however, the impact of our interventions would be stronger if combined with those of other development partners. Working with other institutions would give us the chance to combine our technical assistance.

Knowledge generation: UNIDO should become a think tank on industrial development. It has the mandate and the opportunity to capitalize on an emerging agenda in industrial policy. It also sits astride research and development practice in a way few other organizations do. At present this potential is entirely untapped.

The IFI Unit can directly encourage UNIDO's development in the first two areas: by conducting feasibility studies and by packaging and marketing UNIDO's activities to IFIs. It can also support UNIDO's transformation into a think tank by acting as a conduit for best practice from other institutions.

2. The market for investment support services

What IFIs require

IFIs require assistance at all stages of program development. These include upstream sector analytical work, project and program design, as well as downstream implementation monitoring, review and backstopping. UNIDO will provide advice at all stages of the project cycle, serving as a portal for technical expertise and supporting the design and operation of investment funds. In order to influence program design our interest would be more in providing large, multi-disciplinary or 'chunky' inputs in this process.

Project identification: Most IFIs retain exclusive responsibility for their upstream country work such as country economic and sector assessments. The World Bank's Country Assistance Strategies (CAS), AfDB's Country Sector Programs (CSP) and IFAD's Country Strategic Opportunities Program (COSOP), shape the IFIs' medium term (3-5 year) country programs. However IFIs generally do not have expertise in industrial sector or cluster assessments. UNIDO is well placed to ability to manage the participatory processes that lie behind CASs and to propose effective meso-level interventions and ensure overall coherence.

Project formulation: The broad sector allocations made by IFIs must be translated into specific lending or grant operations. The first part of this process is the identification of projects. This is the one most likely to require UNIDO's inputs. IFIs such as the WB, IFAD and AfDB have asked UNIDO to help design SME and value chain project components for private sector development projects (see Box). UNIDO could contribute technical specialists or provide an inter-disciplinary team to draft a project appraisal document. In parallel with the project design process, UNIDO could also assist in formulating supporting sector policies and designing safeguard measures including environmental impact assessments (EIAs).

UNIDO's Collaboration with International Fund for Agricultural Development (IFAD) In Nigeria, Sierra Leone and India

In early 2007, International Fund for Agricultural Development (IFAD) and UNIDO agreed to intensify their strategic partnerships and so increase the developmental impact of the complementary assistance that both agencies provide to the developing countries. Under this partnership, government support and funding have been secured for three programs:

- Nigeria: UNIDO provided technical support during the appraisal phase of a rural micro-enterprise development program with a budget of US\$ 100 million. During the implementation phase, it will provide technical backstopping for the agro-industry and technology components of the program.
- Sierra Leone: UNIDO technical staff formulated the value-chain development component of a rural agricultural development program. With a budget of US\$ 17 million, the program is designed to improve rural entrepreneurs' access to agro-technologies and processing facilities.
- India: Within the context of a program focused on the convergence of agricultural interventions in the distressed districts of Maharashtra, UNIDO formulated the component dealing with agricultural market and value-chain development. Funded by the government, IFAD and private foundations in India to the order of US\$ 100 million, the program is designed to enhance farm and off-farm incomes in rural areas, thus securing livelihoods.

Project implementation: Program implementation includes periodic (usually six-monthly) supervision of project implementation, mid-term reviews (MTRs), backstopping M&E, and assisting the IFI and/or borrower to prepare an implementation or project completion report at the end of the project. In most cases, downstream work requires only a small team or just one person. With the shift away from projects as 'blue prints', the supervision of projects is less about monitoring compliance with loan covenants and more of a continuous process of dialogue between IFI and borrower. The discussion of progress in achieving project goals and making corrections in implementation is a high level skill that UNIDO could provide.

UNIDO's Collaboration with the World Bank in Sudan

The World Bank is drawing on UNIDO's expertise in private sector development to complement their activities

in Southern Sudan. The IFI Unit has coordinated UNIDO's inputs and managed the relationship with the Bank and other donors. Funded 50-50 by a multi-donor trust fund and the Government of Southern Sudan, UNIDO is contributing by training staff at the Ministry of Commerce and Industry, building the capacity of the Southern Sudan Chamber of Commerce and helping stimulate the local market for business development services. UNIDO's activities in Southern Sudan draw on the organization's experience in neighboring Uganda, where it has established a commercially sustainable network of business information centers for small enterprises, and Rwanda, where it has trained Ministry of Industry staff in competitiveness analysis.

UNIDO's engagement with IFIs will take one or both of the following forms:

On demand services: Following an agreement indicating the common interest of UNIDO and a partner in collaborating on investment support activities, UNIDO services may be requested "on demand". The forward programming of such activities would be limited, with some minimum staff mobilization period (perhaps 1-2 weeks).

Programmed services: The ultimate expression of a successful partnership is agreement on a regular program of services. Such an agreement would guarantee a level of joint operational activities, defined perhaps as a total budget or number of staff weeks of input. Such a long-term commitment will entail an agreed annual program of work, through which the IFI Unit would be able to plan its work, identify and "book" key in-house technical staff.

3. What UNIDO can offer

UNIDO operates at the nexus of government, financing institutions and private sector and can deliver knowledge and professional services in areas where it has a clear comparative advantage and can complement the capabilities of its partners. UNIDO can respond to IFIs' needs by:

- Delivering independent, high quality advice on investment program design and implementation;
- Providing coherent, sector-specific technical expertise that is lacking in the IFIs through joint assistance programs;
- Making available many years of experience in capacity building of local institutions;
- Building on technical assistance to consolidate and enhance national ownership of sector programs.

Core skills: UNIDO's comparative advantage is its expertise in formulating industrial strategies that encourage the private sector, especially through small- and medium-

size enterprises (SMEs), to play a leading role in creating employment, incomes and value added. The skills that are most likely to be demanded in investment support activities are:

- Industrial sector analysis and policy formulation
- Small and medium size enterprise (SME) cluster development
- Agro-processing and value chain development
- Private sector development
- Trade capacity building
- Competitiveness analysis

The Organization's strengths in rural and renewable energy and in clean and sustainable production systems could also be applied in these areas.

Strong networks: UNIDO enjoys an existing strong network of linkages with development partner institutions of many types. In addition to ongoing projects and programs executed by technical Branches in collaboration with the main IFIs, it is also a partner with the EU for the Industrial Subcontracting and Partnership Exchange Program (SPX) and its Industrial Modernization and Upgrading Program, and with a variety of bilateral donors such as DFID. At continental level, it is a partner with the African Union Commission (AUC) and with several regional economic communities (RECs) such as ECOWAS and SADC. UNIDO also has a global network of 12 regional and 16 country offices and, where there is no UNIDO office, it is represented by UNDP. The Organization can also draw upon the expertise in 43 National Cleaner Production Centers (NCPCs) which help industries meet the increasingly onerous demands of world markets. There is also a network of 13 Investment and Technology Promotion Offices (ITPOs) located in donor countries as well as in China, Brazil, Mexico and Korea, that disseminate information on investment financing and opportunities for industrial cooperation, identifying specific investment opportunities, providing expert advice and facilitating business contacts.

Analytical tools: UNIDO has an established methodology in competitiveness and sector analysis as well as an articulated set of tools for value chain assessment. The Computer Model for Feasibility Analysis and Reporting (COMFAR) allows users to conduct financial and economic analysis of investment projects. This tool would be a central part of the IFI Unit capacity building program at country level in association with investment project preparation and appraisal.

Specific opportunities

UNIDO's most important partners are likely to be the World Bank (WB), African Development Bank (AfDB), the Inter-American Development Bank (IDB), the International Fund for Agricultural Development (IFAD) and the European Investment Bank (EIB).

World Bank: UNIDO's focus on small- and medium-sized enterprises (SMEs) and poverty reduction is most likely to be relevant in assisting private sector and agribusiness development in least developed (IDA) countries. The recently created (July 2008) Climate Investment Funds also offer an opportunity for collaboration. With IFC, the World Bank's private sector arm, UNIDO could contribute by providing expertise in supplier development to its global linkages program.

Inter-American Development Bank: The main avenue for cooperation with IDB is likely to be with the Multilateral Investment Fund (MIF) which provides technical assistance grants to support improvements to the business environment and makes investments for microfinance and small business loans and equity capital. UNIDO could offer its expertise in investment fund design.

African Development Bank: AfDB has projects in agriculture and rural development that involve agro-industry, market linkages and value chains. The Bank's Agriculture department is anxious to increase its portfolio of agro-industry projects and would welcome UNIDO's assistance in formulating projects. Other areas of collaboration include South-South cooperation, private sector development, trade capacity building, renewable energy, and Africa's Action Plan on Science and Technology.

The International Fund for Agricultural Development: IFAD offers great potential as a partner for the IFI Unit. The areas in which UNIDO might collaborate with IFAD, signaled in a joint aide memoire in October 2008, include: value chain and market linkages; agro-industry and agro-processing; and food production and bio-energy. The types of collaboration identified at country level would include: country program review missions; country strategy work; project design missions; quality peer review; and joint program in value chain development.

European Investment Bank: There is potential for UNIDO to play a role in supporting the identification and screening of investment projects for financing from the EIB's SME Funds. Preliminary contacts have led to the formulation of a pilot cooperation scheme in Syria where UNIDO technical assistance will be feeding investment opportunities to the EIB SME fund.

| TYPE OF IFI PROGRAMME | ROLE OF UNIDO |
|---|---|
| Programmes to strengthen the sector framework: <ul style="list-style-type: none"> • Policies • Strategies • Institutions • DBS policy reforms | <ul style="list-style-type: none"> • Sector analysis • Capacity building • Identify policy reforms • Policy matrix formulation |
| Investment projects: <ul style="list-style-type: none"> • Public investment in infrastructure and institutional development aimed at enhancing the enabling environment for private sector | <ul style="list-style-type: none"> • Public investment project design • Technical expertise • PAD formulation (multi-disciplinary team) • Design of environmental safeguard mechanisms (EIAs) |

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|---|--|
| <p>investment</p> <ul style="list-style-type: none"> • Private sector development initiatives • SME. Value chain and agro-industry components of poverty reduction projects • Financing mechanisms for private sector firms including credit lines through development and/or commercial banks | <ul style="list-style-type: none"> • Design of M&E • Design capacity building • Project implementation manuals • Quality peer review • Project supervision • Mid-term reviews (MTRs) • Implementation completion reports (ICRs) |
| <p>Direct support to private sector enterprises:</p> <ul style="list-style-type: none"> • Credit lines • Loans • Equity and venture capital | <ul style="list-style-type: none"> • Sector assessments • Design investment funds • Advisory services • Screening private sector investment proposals • Due diligence |

4. Making it work: a specialist IFI Unit

Making this strategy work will require UNIDO to respond quickly and appropriately to requests for assistance. It also requires ensuring consistently high quality outputs. The most effective way of doing this is through a specialist unit to broker and maintain relationships with IFIs. This would absolve branches staff of the responsibility for negotiating terms of engagement or coordinating their activities with colleagues in house.

The IFI Unit's structure and tasks

The IFI Unit will consist of a small group of professionals, three at the moment, possibly to be integrated with in-house posts made available through internal reorganization of competencies. The Unit's staff would lead technical formulation missions, supported where possible with branch staff or consultants. In addition, the Unit would:

Formulate a coherent package of services

Once the overall partnership strategy is agreed, the Unit will hold detailed discussions with technical Branches on the scale and type of their inputs to the program. It will then draft a document detailing the services to be offered. This document should constitute the basic material that is used when approaching IFI and other potential partners. It should also be transformed into a brochure for dissemination as part of a communication strategy. The brochure would explain why

investment in the industrial sectors of developing countries is important and set out UNIDO's comparative advantage in delivering investment support through the IFI Unit.

Negotiate contractual arrangements with IFIs

Framework Agreements: the IFI Unit would need to revisit the existing framework agreements with IFIs and other potential partners to assess the need for major changes or modifications.

Working Arrangements: Framework agreements do not define detailed working arrangements or how joint activities will be financed. The IFI Unit would also negotiate working arrangements with partners to allow the quick execution of tasks, triggered simply by a request from the IFI. Such arrangements would specify:

- the broad nature of tasks that could be undertaken (e.g. identification, preparation, supervision of investment projects, country strategy work, desk review)
- the means of financing (cost-sharing agreement for different types of tasks)
- management responsibilities with respect to mobilizing experts (what form of request will trigger mobilization, how to clear the use of specific staff or consultants etc)
- system of billing for UNIDO inputs (staff and consultant rates, reimbursement of non-staff costs such as travel, frequency of billing, provision for advance payments etc)
- an indication of the number of tasks that might be undertaken over a given period
- reporting channels (how reports or other outputs are to be submitted)

Establish a delivery system to ensure timeliness and quality

In order to give substance to specific working arrangements, it is essential to establish a system that will allow UNIDO to respond quickly and effectively to a request:

- **Programming:** The IFI Unit would need to agree with each IFI partner on a routine system for programming activities. It might be agreed, for example, to tentatively program activities for a six-month period.
- **Budgeting:** Tentative programming of activities will also enable the Unit to prepare an operational budget showing the source of cost-sharing finance and likely income. The budget would project likely non-staff costs including consultants and travel.
- **Human resource inputs:** A tentative program of activities will allow the Unit to make a preliminary schedule of staff and consultant inputs and to assess whether or not additional requests can be accommodated.

- Quality management: As described above, all the necessary operational procedures must be put in place to ensure effective quality management.
- Reporting: A system for regular reporting must be put in place. This would include frequent (weekly or monthly) reports on current activities (including staff and consultant use), and the status of activities about to be launched.
- Billing: A time recording system would need to be established that would form the basis for billing IFIs for staff and consultant time allocated to specific tasks. In addition, depending upon the form of the financing arrangements agreed, all other reimbursable costs would need to be assembled for submission to the IFI.

The Unit's relationship with UNIDO's technical branches

It is important that the activities of the Unit are thoroughly rooted in all aspects of UNIDO's work and in every Division and Branch. This will also imply an adjustment of performance indicators within the Organization to accommodate recognition of impact at the level of sector goals rather than delivery. Incentives, such as reimbursement of the costs of a staff member to the seconding branch, will be a necessary part of the internal market arrangement. Through such incentives, a soft network of reference staff could be established throughout the Technical Branches, allowing for quick availability of staff time to the IFI Unit for specific tasks. These will strengthen UNIDO's capability to deliver as one and to accumulate and diffuse knowledge.

Finally, IFIs must have confidence in the technical quality and independence of UNIDO's work. Although the IFI Unit will bring the vision, values and expertise of UNIDO into the partnership, it may not use its position to advocate for the use of UNIDO's services in delivering technical assistance inputs in the projects it has helped to design. The IFIs operate strict procurement procedures for project implementation technical assistance and it may not normally be acceptable for UNIDO to be awarded a TA contract without proper tendering procedures being followed. It is important that technical Branches understand the nature of the relationship between the IFI Unit and partner IFIs and do not seek to compromise the independence of the design or advice provided.