



United Nations Industrial Development Organization

Distr.: General
6 July 2006

Original: English

Industrial Development Board

Thirty-second session
Vienna, 29 November-1 December 2006
Item 2 (d) of the provisional agenda
Mobilization of financial resources

Programme and Budget Committee

Twenty-second session
Vienna, 5-6 September 2006
Item 6 of the provisional agenda
Mobilization of financial resources

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Report by the Director-General

Responds to the mandate provided by decision IDB.25/Dec.5 in which the Director-General is requested to maintain a continuous dialogue with Member States in order to actively sustain the common resource mobilization effort. Reports on thematic priorities, progress made in the development of partnerships and mobilization of financial resources.

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I. Introduction

1. The present document responds to the mandate provided by decision IDB.25/Dec.5, in which the Director-General is requested to maintain a continuous dialogue with Member States in order to actively sustain the common resource mobilization effort and to reports on the progress made to the Board at its thirty-second session. The document should be considered in conjunction with the *Annual Report of UNIDO 2005* (PBC.22/2-IDB.31/2), chapter V of which provides information on the mobilization of funds for UNIDO services during the year 2005 from the various sources available to the Organization.

2. Given the limited availability of funding for technical cooperation activities from the regular budget of UNIDO, as defined by the Constitution, the mobilization of extrabudgetary funding for the delivery of UNIDO services is imperative. As shown in the *Annual Report 2005*, the volume of extrabudgetary funds has increased rapidly in the last two years, reaching \$128.4 million, the highest level since 1990. With a stable volume of funding of around \$50 million per year under the Montreal Protocol and the Global Environment Facility (GEF), most growth has come from governmental contributions through the Industrial Development Fund and the trust fund mechanism. It is evident that these governmental contributions are essential for the implementation of the three thematic priorities of the Organization.

II. Focus on three thematic priorities

3. The rapid growth in governmental contributions confirms that the three thematic priorities of UNIDO that were defined in the previous biennium respond well to the development themes of the international community. With these priorities directly taking into account the Millennium Development Goal of poverty reduction, as well as the objectives set forth by the Finance for Development Summit and World Summit on Sustainable Development, the positive response of donors to the programmes has clearly increased.

4. The three thematic priorities are:

- **Poverty reduction through productive activities:** By directly addressing poverty, this priority promotes medium, small and micro enterprise development; SME cluster development; rural development; agro-based industries; women in development as well as the rural energy for productive use programme.
- **Trade capacity-building:** This thematic initiative was launched at the Finance for Development Summit in 2002 and foresees a combination of
 - (a) Building up the technical infrastructure that countries require for participating in international trade as per WTO agreements (standards, quality, metrology, accreditation, certification) with
 - (b) Strengthening the performance of key export sectors, thus expanding their supply and export capacities.
- **Energy and environment:** With regard to energy UNIDO is focused on both renewable energy; and industrial energy efficiency. The environment programme consists largely of the programmes funded under the Montreal Protocol, GEF (mainly persistent organic pollutants, water and climate change), and the UNIDO/UNEP cleaner production programme funded by donor countries.

5. In addition, and usually in the framework of United Nations-wide activities and within the areas of the Organization's mandate and specialization, UNIDO will participate in projects and programmes dealing with human security in post-crisis situations. The Organization will, inter alia, identify the industrial recovery needs and required interventions, the actual interventions in the rehabilitation and reconstruction of key industries and infrastructure supplying basic needs, as well as the promotion of income-generating activities within the areas covered by the UNIDO service modules.

6. Each thematic priority is clearly defined and focused, incorporating contributions from several branches and service modules. This process of defining activities and developing related integrated approaches and specialized tools will continue in the current biennium. It is further anticipated that integrated programmes will increasingly revolve around one of these priorities, concentrating efforts and funding, in order to increase impact and visibility.

III. Development of partnerships

7. In addition to the focus on three international development priorities, UNIDO is sharpening the definition of its activity areas while also specifying which fields UNIDO will normally not cover. Currently these efforts are most pronounced in the trade and energy areas, work is in progress for the other priority areas with a view to more sharply defining them. This focusing exercise allows the Organization to concentrate its efforts in areas of strength. Furthermore, in order to meet the requirements of Member States with a comprehensive solution, UNIDO works closely with organizations that possess a complementary mandate. In the current biennium partnerships will be pursued with those organizations that match the UNIDO thematic priorities most directly, while building on the partnerships already formalized, including those with WTO under the trade capacity-building priority, UNEP under the environment priority (cleaner production programme) and UNIDO's membership in the Global Compact, focusing on SMEs.

8. Also for the current biennium, consultations are foreseen with FAO, IAEA, ILO and UNESCO, as well as with selected private sector and NGO partners with a view to formalizing cooperation through strategic partnerships. While synergy and increased impact of activities are the main objectives of the partnerships, it is also anticipated that donors will give preference to programmes and projects that are backed by the complementary expertise of closely cooperating organizations.

9. Strategic partnerships will furthermore continue to be pursued with donors and other organizations that may finance UNIDO programmes and projects. These efforts may focus on both specific regions and subjects. An advantage of close cooperation with single donors is that an individual, simplified framework agreement can be reached that covers legal, financial and administrative funding aspects, thereby greatly facilitating project funding. Currently four such framework agreements covering project financing are in force with the following organizations and agencies: European Commission (November 2003), the Department for International Development (DFID) of the United Kingdom (December 2003), the Norwegian Agency for Development Coordination (NORAD) (March 2006) and the World Bank (March 2006). This does not apply to those donor countries that are channelling their contributions to UNIDO through an account with the Industrial Development Fund, which operates with its own standard conditions.

IV. Programming thrust for the biennium 2006-2007

10. For the biennium 2006-2007, the priority in respect of developing programmes and the allocation of funds available to the Organization will continue to be given to the following areas:

- (a) The integrated programmes focused on the three thematic priorities;
- (b) Regional thematic programmes under the thematic priorities;
- (c) Priority stand-alone projects in countries where no integrated programme is operating.

It is anticipated that in thematic terms, demand for UNIDO support may be highest for trade capacity-building, also at the sub regional level as well as for (renewable) energy activities.

11. In terms of geographical distribution, priority will continue to be given to the least developed countries (LDCs) and Africa. For Africa, the Africa Productive Capacity Initiative (APCI) received a strong stimulus with the adoption of a Declaration by the seventeenth meeting of the Conference of African Ministers of Industry (CAMI) on 21 June 2006 in Cairo, Egypt, which underlined both the thematic orientation as well as the clear ownership and responsibility for mobilizing funds for resulting programmes.

V. Progress in funds mobilization

12. Significant progress was made in 2005 in respect of governmental contributions to the programmes and projects of UNIDO. With the approval volume of the multilateral funds stabilizing at a high level, this trend resulted in a continued increase in the total funds being mobilized. It is anticipated that this level can be maintained in 2006. However, given the increasing shift to fewer but larger programmes that tend to have a longer development phase, the timing of individual project approvals may have an impact on yearly figures. In particular in the African region, several larger sub regional programmes are under development, including a second phase of the UEMOA trade capacity-building programme that will also cover some additional countries from the ECOWAS region. Furthermore, a large upgrading programme for UEMOA countries, a trade capacity-building programme for the East Africa Community, as well as a possible participation in a similar programme for the SADC region are under preparation.

13. A degree of uncertainty stems from the funding prospects of the programmes jointly developed with UNDP and WTO. In spite of the high level of interest expressed by donors in the modality of joint programme development, the results obtained so far have been less than expected. Therefore, funds mobilization efforts for these programmes are now being intensified.

VI. Action required of the Committee

14. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

“The Industrial Development Board:

- (a) Takes note of the information contained in document IDB.32/6 PBC.22/6;

(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 2007 and 2008 in accordance with the priorities defined in the medium-term programme frameworks, 2006-2009 (GC.11/12);

(c) Encourages Member States and other donors to increase their voluntary contributions to UNIDO;

(d) Also encourages all donors to consider contributing programmable funds, specifically to enable UNIDO to implement the integrated programmes in a coordinated manner and achieve the synergy and increased impact envisaged in the integrated programme concept, as well as to support an efficient development and implementation of the new initiatives;

(e) Further encourages Governments of recipient countries to play a more active role in sharing with UNIDO the responsibility to mobilize funds for jointly developed integrated programmes and other high-priority activities, and specifically to assist in identifying and accessing funds available at the country level, including cost-sharing arrangements, and funds from bilateral donors, the United Nations Development Programme, World Bank and other development finance institutions;

(f) Urges Member States to cooperate with the Organization in its efforts to launch and promote the new initiatives in the international development context, especially in international conferences and other forms of dialogue, with a view to ensuring that these initiatives are well known and their relevance for international development targets is recognized”.
