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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 the 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. The present report on progress made should be considered in conjunction with the *Annual Report of UNIDO 2007* (IDB.34/2-PBC.24/2), chapter 1.C of which provides information on the mobilization of financial resources for that year.

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's services is imperative. As shown in the *Annual Report 2007*, the volume of these extrabudgetary funds has increased rapidly, especially in 2007, reaching \$151 million of net increase to project budgets with another more than \$20 million of further payments due under signed agreements and additional programmable contributions, an all time high for the Organization.

3. With the volume of funding under the Montreal Protocol and the Global Environment Facility (GEF) stable at around \$50 million per year, most growth has come from the governmental contributions through the Industrial Development Fund and the Trust Fund mechanism, as well as through so-called multi-donor trust funds, especially in post-crisis situations. It is evident that these governmental contributions are essential for the implementation of the three programme priority themes of the Organization. In 2007 the European Commission became the largest single donor in this category.

II. Maintaining the focus on three thematic priorities

4. It is clear that the continued strong focus on the three thematic priorities of UNIDO has contributed to this growth. In different ways each of these are seen to respond to key development priorities of the international community, and UNIDO has succeeded in establishing a clear and focused response in which it has comparative advantages. This in turn has increased the interest of donors in cooperating with UNIDO. The three themes are:

- **Poverty reduction through productive activities:** Directly addressing the main Millennium Development Goal (MDG) of reducing poverty, this theme includes medium, small and micro enterprise development; small and medium enterprise cluster development; rural development; agro-based industries; women in development as well as the "access to energy for the poor" issue through the "Rural Energy for Productive Use" programme.
- **Trade capacity-building:** Launched at the United Nations International Conference on Financing for Development in 2002, this priority theme consists of a combination of

(a) Building up the technical infrastructure that countries require for participating in international trade as per World Trade Organization (WTO) agreements (standards, quality, metrology, accreditation, certification) with

(b) Strengthening the performance of key export sectors, thus expanding the 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 and the GEF (mainly on persistent organic pollutants (POPs), water and climate change), as well as the joint cleaner production programme by UNIDO and the United Nations Environment Programme (UNEP) funded by donor countries.

The focus on these thematic priorities will continue, further building up the expertise and tools required, as well as partnerships with other relevant organizations, strengthening further the competitive position and visibility of UNIDO. Under these three themes, UNIDO is also working within the framework of United Nations-wide programmes in post-crisis situations. This may include a diagnostic phase, which will identify the industrial recovery needs and required interventions, and the actual interventions in the rehabilitation and reconstruction of key industries and infrastructure supplying basic needs, and the promotion of income generating activities within the areas of the UNIDO service modules.

III. Major programme developments

5. A major development of 2007, which is expected to continue in 2008 and subsequent years, is the emergence of the European Commission as the main governmental donor with a net increase of project allotments by \$21.6 million. This progress relates primarily to the trade capacity-building priority. In 2008 and 2009 large scale additional projects are under development, both at the subregional level with regional integration organizations that have programmes with the Commission as well as at the country level. In 2007 UNIDO has been deeply involved with these partners in identifying their requirements and formulating programmes consisting of both regional and country level interventions. In many of these UNIDO is bringing in its partners, the International Trade Centre (ITC) and United Nations Conference on Trade and Development (UNCTAD), in order to effectively cover a broad range of requirements by single programmes or projects. For UNIDO these programmes will include a broad range of services including contributions from various branches. One challenge related to funding from the European Commission is the requirement for projects to be co-financed by a third party, be it UNIDO or another donor. Although this requirement was lifted for African, Caribbean and Pacific countries, it continues to be applicable for other countries.

6. Close cooperation or consultation with WTO continues as an essential element of the trade capacity-building approach of UNIDO. Within the framework of the Expanded Integrated Framework, joint pilot programmes are being developed for eight least developed countries (LDCs), building on analytical work that has been done in recent years. These will be presented to the Ministerial Conference of the least developed countries in November 2008 (Siem Reap, Cambodia) at which occasion these will also be presented to the donor community.

7. Under energy and environment the main sources of funding for UNIDO activities continue to be the multilateral fund for the Montreal Protocol and the

GEF. While work under the first one continues as before, UNIDO has started to systematically develop project portfolios for funding by the GEF, especially in the areas of POPs and energy/climate change. While these are promising programmes, they present UNIDO with an important challenge as GEF member States have decided that GEF financed projects require important co-funding from partner organizations, both in the development phase as well as the actual funding of the project implementation. In many cases, specially for projects related to the least developed countries, or for regional projects, national contributions are limited. Given UNIDO's scarce programmable resources, this is now presenting a major potential obstacle.

8. A special situation exists in respect of funding and funds mobilization in the eight countries selected as pilots for the "One UN" approach as defined by the High-level Panel on United Nations System-wide Coherence. In most of these pilot countries the "One Programme" has now been agreed, and first funding provided by donors has already been allocated. In several cases however the approach selected by the country team is that participating agencies have to contribute themselves to the funding of the programme, while at the same time requiring that all local funds mobilization efforts are focused on the One Fund. This again increases the demands for the limited UNIDO programmable resources.

9. In addition, special programmes are being developed addressing specific needs and objectives at a regional or subregional level. This includes inter alia the West Africa youth employment programme and the "Lighting up Rural Africa" programme. Given their size and nature, as well as mainly involving the poorest countries, multi-donor funding of these programmes appears to be the only way forward.

10. Given the fact that the above-mentioned funding requirements far exceed the programmable funds available to UNIDO, the Organization is considering developing dedicated funding channels for these different requirements through the establishment of trust funds to which donors can make contributions.

IV. Programming thrust for the biennium, 2008-2009

11. For the biennium 2008-2009, 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 above-mentioned priority themes. This has to be adjusted in countries where the "One UN" approach involves integration of activities on a United Nations-wide basis;

(b) (Sub)regional thematic programmes under the priority themes as mentioned above; and

(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 subregional level, as well as for (renewable) energy and agro/food-related activities.

12. In terms of geographical distribution, priority will continue to be given to the LDCs and Africa.

V. Progress on funds mobilization

13. As mentioned above, significant progress was made in 2007 in respect of governmental contributions to the programmes and projects of UNIDO. While the approval volume of the multilateral funds remains stable at the high level of recent years (\$54.6 million), the highest level of governmental contributions in the history of UNIDO (\$93.2 million) has ensured the highest overall level of new funds for technical cooperation. In 2008 funds are also expected to start becoming available from donor governments through the “One UN” pilot programmes as well as under the MDG Achievement Fund (financed by Spain). It is anticipated that for 2008 a similar volume of new funds will become available.

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.35/7-PBC.24/7;

(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 2008 and 2009 in accordance with the priorities defined in the medium-term programme framework, 2008-2011 (IDB.32/8 and Add.1, and IDB.32/CRP.5);

(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 and thematic programmes responding to international development priorities;

(e) Requests Member States to consider contributing to UNIDO to enable the Organization to participate in programmes requiring co-funding, either through contributing to dedicated trust funds or by special purpose funding at country or global level;

(f) Further encourages Governments of recipient countries to play an active role in sharing with UNIDO the responsibility to mobilize funds for jointly developed 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, multi-donor trust funds, United Nations Development Programme, the World Bank and other development finance institutions;

(g) Strongly recommends Member States to cooperate with and support the Organization in its efforts to develop and promote its programmes and initiatives in the international development context, and especially through international conferences and other forms of dialogue, in order to ensure that these initiatives are well known, their relevance for international development targets recognized, and resources made available.”
