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Mobilization of financial resources

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Report by the Director-General

The current 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 document also reports on thematic priorities, progress made in the development of partnerships and the mobilization of financial resources.

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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 is submitted to the Board through the Committee, and should be considered in conjunction with the *Annual Report of UNIDO 2009*, chapter 1 C, which provides information on 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 services is imperative. As shown in the *Annual Report 2009*, the volume of these extrabudgetary funds mobilized in the year continued to increase rapidly, reaching \$183.4 million (including payments due under signed agreements and additional programmable contributions), which represents the highest ever level for the Organization.

3. As indicated in previous years, investments made in relation to the development of a portfolio of projects for funding by the Global Environment Facility (GEF) has started to deliver positive results with the highest level of net approvals of more than \$43 million, which has helped to compensate for the fluctuation in funding from the Montreal Protocol. Funding from Member States through contributions to the Industrial Development Fund and the Trust Fund mechanism, as well as through so-called multi-donor trust funds, especially in post-crisis situations, was maintained at the high level reached in 2008 at about \$115 million (including future instalments under signed agreements). The European Commission remained the largest single donor in this category.

I. Building on the three thematic priorities

4. The strong performance in mobilizing new resources for UNIDO programmes is clear evidence that the consistent focus on the three thematic priorities and the continuing strengthening of the Organization's capacities in these areas is resulting in increased recognition of its strength and comparative advantages. All three thematic priorities respond to key development goals of the international community. In addition, the overall emphasis UNIDO places on industry as a key productive sector for developing economies has succeeded in establishing a clear and focused response to these goals in which it has clear comparative advantages. This in turn has increased the interest of donors in cooperating with UNIDO. The three themes are:

(a) **Poverty reduction through productive activities:** Directly addressing the main Millennium Development Goal (MDG) of reducing poverty, this theme includes medium, small and microenterprise 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.

(b) **Trade capacity-building:** Launched at the United Nations International Conference on Financing for Development in 2002, this priority theme consists of a

combination of building up the technical infrastructure that countries require to participate in international trade as per World Trade Organization (WTO) agreements (standards, quality, metrology, accreditation, certification) with the strengthening of the performance of key export sectors, expanding the supply and export capacities.

(c) **Environment and Energy:** 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 GEF (mainly on persistent organic pollutants, water and climate change), as well as the resource efficiency and cleaner production programme funded by donor countries and coordinated by UNIDO and the United Nations Environment Programme (UNEP).

5. In post-crisis situations, UNIDO normally participates within the framework of United Nations system-wide programmes, but within the general framework of the above three themes.

6. The Organization will maintain its focus and continue to strengthen its capacity and position in the three thematic priorities areas. It will continue to develop partnerships with organizations with complementary mandates and skills. Likewise, it will seek to further build up its own expertise and tools required in order to continuously improve the services it provides to Member States and increase the results achieved. It is anticipated that, with an increasing visibility in these areas, voluntary contributions from a variety of donors and other sources will continue to increase.

II. Progress of funds mobilization

7. As mentioned above, significant progress has been made in 2009 in respect of the overall funding situation for the programmes and projects of UNIDO. Not only were more funds mobilized in 2009 than in any previous year, but also the number of donors that substantially contributed was higher than ever before with 16 governments and other donors now contributing more than \$1 million. In addition, the rapid increase of so-called multi-donor trust funds, first used in post-crisis situations, but now also for the achievement of the MDGs as well as for the core funding of the programmes in the One United Nations pilot countries, is providing an additional channel of funding for UNIDO technical cooperation. In 2009, UNIDO received more than \$22 million from these multi-donor trust funds in contributions to joint programmes. Together with the increase in funding from GEF and the continuing funding under the Montreal Protocol, this provides for a much more diversified funding base for UNIDO programmes.

III. Major programme developments

8. Funding from multi-donor trust funds provides an important additional source of funding for the “poverty reduction through productive activities” thematic priority as most funding under the joint programmes relates to these activities. It is anticipated that the level of funding will continue at this level in the coming years. The new initiative of UNIDO to develop for selected least developed

countries (LDCs), comprehensive programmes for the development of the agribusiness sector in close cooperation with other organizations including the Food and Agriculture Organization of the United Nations (FAO) and the International Fund for Agricultural Development (IFAD) is expected to further increase the level of funding for this thematic priority. This is increasingly important as food security and global food supply continue to be major concerns for Member States. The trust fund established pursuant to decision GC.13/Dec.15 aimed at financing additional activities for increased food security through agribusiness and agro-industry promotion, will facilitate the development of programmes that will be submitted to the donor community for funding.

9. In relation to the trade capacity-building thematic priority, the main donor continues to be the European Commission, although several other donor countries are also making important contributions under this theme. As indicated last year, several large-scale programmes have been developed and some are expected to be approved in 2010 by the European Commission. One particular challenge with 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 (ACP) countries, it continues to be applicable for other countries. UNIDO appreciates that one donor country (Norway) has agreed to provide the co-financing required for a recently approved large scale European Union (EU) funded project in Bangladesh. Similar contributions from other donors are encouraged. Funding is still being sought for several of the multi-agency pilot programmes developed for LDCs within the framework of the Enhanced Integrated Framework.

10. For the thematic priority related to environment and energy, the main sources of funding for UNIDO activities continue to be the Multilateral Fund for the Montreal Protocol (MP) and GEF. In 2009, UNIDO was again rated highest among the executing agencies on the basis of quantitative performance indicators. This may help in the future to also gain increasing access to the bilateral window of the MP. For GEF, UNIDO has developed a large project portfolio for funding, especially in the areas of persistent organic pollutants and energy/climate change. Already in 2009 a record level of approvals by GEF was realized. A continuing challenge is the requirement for co-funding in both the development phase as well as in many cases the main project. In this regard, the trust fund for renewable energy established pursuant to decision GC.13/Dec.15 can assist at least for renewable energy projects. Additional contributions to this trust fund would be important to enable UNIDO to develop the full potential of funding from GEF. Funding for the UNEP/UNIDO resource efficient and cleaner production programme continues to rely on a few individual donors. The network of National Cleaner Production Centres is increasingly being used to promote and carry out specific energy/climate change and environmental programmes. For these activities, additional donors and funding would enable the network to increase its effectiveness in supporting Member States to achieve objectives related to climate change and the environment.

IV. Programming thrust for the biennium 2010-2011

11. For the biennium 2010-2011 the priority in respect of developing programmes and allocating funds available to the Organization will continue to be given to

(a) integrated programmes focused on the above-mentioned priority themes; (b) participation in joint programmes, especially in countries where the One United Nations approach involves integration of activities on a United Nations system-wide basis, but also in other inter-agency activities; (c) regional and subregional thematic programmes under the priority themes; and (d) priority stand-alone projects in countries where no integrated programme is operating.

12. It is anticipated that in thematic terms, demand for UNIDO support may be highest for agro/food and agribusiness activities, renewable energy and related activities as well as trade capacity-building, both at the country and subregional level.

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

V. 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.38/8-PBC.26/8;

“(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 2010 and 2011 in accordance with the priorities defined in the medium-term programme framework, 2010-2013 (IDB.35/8/Add.1);

“(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 develop and implement the integrated programmes and other programmatic initiatives in a coordinated manner and achieve the synergy and increased impact envisaged in the integrated programme concept;

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

“(f) Further encourages Governments of beneficiary 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 to Member States that they cooperate with and support UNIDO 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 are recognized, and resources are made available.”
