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Mobilization of financial resources

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Report by the Director General

The present report 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. It should be considered in conjunction with the *Annual Report of UNIDO 2017*, which provides information on mobilization of financial resources for that year. The report also provides substantive reporting on the thematic trust funds, the trust fund for Latin America and the Caribbean, and the two special accounts financed through unutilized balances and other voluntary funding.

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I. Introduction

1. 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 2017*, the volume of these extrabudgetary funds mobilized in 2017, reached \$197.4 million (the level of future payments due under signed funding agreements, with addition of the programmable donor funds). Net funds made available for implementation increased for the sixth consecutive year, reaching \$217.9 million in 2017.

2. Funding from the Global Environment Facility (GEF) increased to \$91.2 million, reaching a record level for the second consecutive reporting period. Funding from the Montreal Protocol in 2017 reached \$22.4 million. Funding from governmental sources through a variety of channels exceeded \$98.9 million. In 2017, the European Union, Switzerland and Japan were the three largest single donors in this category.

II. Thematic focus and progress on funds mobilization

3. The continuously strong performance in mobilizing new resources for UNIDO programmes is clear evidence for the wide recognition of the Organization's comparative advantages and for the relevance on its thematic priority areas. The work of the Organization continues to be seen as an effective response to global concerns, including poverty, lack of employment and social instability, access to regional and international trade, food and energy security, and environmental degradation and climate change.

4. Guided by the Lima Declaration (GC.15/Res.1) and the 2030 Agenda for Sustainable Development, the Organization will continue to promote inclusive and sustainable industrial development (ISID) by strengthening its capacity to create shared prosperity and advanced competitiveness while safeguarding the environment and strengthening knowledge and institutions. In the implementation of industry-related sustainable development goals and targets, UNIDO will further strengthen existing and forge new partnerships with organizations with complementary mandates and skills, as well as with representatives of the public and private sector, financial institutions, academia and civil society, so as to continuously improve the services it provides to Member States and increase the efficiency and effectiveness.

5. In addition to 17 governmental donors providing more than \$1 million each, funding from multilateral funds as well as multi-donor trust funds present an increasingly diversified funding basis for the future. UNIDO continues to pursue innovative sources of financing, including through additional contributions from traditional and emerging multilateral and bilateral sources.

6. The two issues of concern continue to be, as noted in previous years, the requirement of some donors, such as the GEF, for co-funding of projects, and the limited availability of funds that UNIDO can programme. These are critical to respond rapidly to requests for assistance and for the design phase of projects and programmes. Member States and other donors are strongly encouraged to continue to contribute unearmarked or programmable funds, notably to the below-mentioned thematic trust funds.

III. Trust fund on food security

7. This section covers recent progress since the last report issued in April 2016 (IDB.44/5-PBC.32/5).

8. Since the last report, technical cooperation activities amounting to €974,269 (net of programme support costs), compared to €3,009,319 from the creation of the trust

fund in 2010 until the last report, were financed from resources of the trust fund. The newly allocated funds target Africa (Namibia and Rwanda), Asia (Cambodia and Viet Nam), as well as projects with a regional focus, such as the “Scaling up for food safety capacity-building” project, or with a global focus, such as the project on entrepreneurial competency-based framework for industrial development. The leverage effect triggered since the initiation of the trust fund is continuing successfully with much deeper involvement in the establishment of Integrated Agro-Industrial Parks in Ethiopia; the support to establish Agropoles in Senegal; the Tempe project in cooperation with FAO and IAEA in Indonesia; and the support to mountainous zones in Morocco. These projects triggered follow-up projects representing a leverage effect of approximately 25 per cent, thereby meeting the donors’ expectations of a significant leveraging of the trust fund resources.

9. Preparatory assistance with follow-up projects are under implementation in Cambodia, and are under development mainly in African countries based on the “Intervention for scaling up food capacity-building”. The expected leverage effect will be approximately 30 per cent.

10. The results achieved by the project “Strengthen the supply capacity of the fruits and vegetable sector by applying proper technologies along the value chain” in Viet Nam, a co-financing initiative combining One United Nations funds, private sector investments and trust fund contributions, resulted in a request from the Government of Viet Nam to scale up the interventions by a factor of ten. The latest contribution from the trust fund is earmarked for a baseline study. It is planned that the trust fund will support the implementation of the Accelerated Agribusiness and Agro-Industries Development Initiative Plus (3ADI+), a renewal of the 3ADI initiative building on the experiences and lessons learned from the original initiative. Pilot applications are under development in Bangladesh, Suriname and the United Republic of Tanzania.

11. The Government of Finland was the main contributor to the Trust Fund during the reporting period.

IV. Trust fund on renewable energy

12. The trust fund has been fully operational for over eight years, and significant progress has been achieved. To date, 15 projects developed with the support of the trust fund have been approved by the GEF for grant funding of around \$42 million, as well as \$234 million to be leveraged as co-financing. Projects funded by the GEF are located, inter alia, in Albania, Argentina, Cambodia, Cameroon, Chile, Côte d’Ivoire, the Dominican Republic, Egypt, India, Kenya, the Lao People’s Democratic Republic, Madagascar, Nigeria, and the United Republic of Tanzania.

13. In addition, seven non-GEF projects have been developed with the support of the trust fund, with grant funding of \$11 million. These include projects in the Caribbean region, Ethiopia, India, Kenya, and the Southern African Development Community (SADC) region, as well as a cross-cutting project to mainstream gender considerations in sustainable energy programmes.

V. Trust fund on trade-related capacity-building

14. The trust fund on trade-related capacity-building contributes to promoting quality and standards in the assisted countries, as well as the organization of global forum activities. These aim to support partnership initiatives targeting governments, the private sector and development finance institutions, mobilizing additional partners and leveraging resources to accelerate ISID. The objective of implemented projects is to create and maintain a business environment by achieving good governance through quality policy formulation and internationally recognized compliance and quality infrastructure services for greater market access. In assisted countries, local expertise is built in the area of quality, competitiveness and private

sector development, focusing on the integration of small and medium-sized enterprises into global value chains and promoting innovative technologies as a tool to enhance economic competitiveness in least developed countries (LDCs) to significantly reduce poverty.

15. Since the creation of the fund, technical cooperation activities amounting to €2,443,065 including programme support costs were financed from its resources. The Government of Finland was the main contributor to the Trust Fund during the reporting period. The fund currently contributes €615,670 to three ongoing projects at the global level and €641,784 to three regional projects in Africa.

16. With this trust fund mechanism, UNIDO strengthens the capacity of developing countries to meet quality standards of exports, supports agro-industry value chain development and promotes business partnerships in countries such as Brazil, Ethiopia, Madagascar, Pakistan, Senegal, and Sierra Leone. The funds were mainly allocated to LDCs as preparatory assistance, to mobilize a significant amount of resources from other financial sources for technical cooperation interventions. Ongoing UNIDO trust fund projects at the global level focus on good governance and sustainability of quality infrastructure through quality policy; on a trade and quality-related interactive web-tool called the trade and compliance knowledge hub online platform; and on strengthening cooperation between UNIDO and the Enhanced Integrated Framework. As a result, policymakers, service providers and private enterprises will benefit from online platforms which collect and centralize the existing global forum activities, publications and e-learning tools from the UNIDO department of trade, investment and innovation. The constant requests from Member States in the area of trade-related capacity-building call for further contributions to this trust fund.

VI. Trust fund for Latin America and the Caribbean

17. Since the creation of the fund for Latin America and the Caribbean in 2011 (IDB.40/8 and IDB.41/12) the fund has proven to be an efficient mechanism to promote South-South cooperation and strengthen regional complementarities, leverage regional value chain opportunities, support the creation of networks to establish closer dialogue between national stakeholders, and facilitate the exchange of knowledge and solutions among actors in the region.

18. The fund currently supports the following four initiatives, each of which is listed inclusive of its support cost: (a) in the “Exploring advanced technologies to improve regional value chains” project in Brazil and Uruguay, 82 per cent of the overall budget of €86,445 has been implemented; (b) in the “Improving productivity and competitiveness of fishery value chains in six LAC countries” project co-financed by the OPEC Fund for International Development, and which covers Colombia, Cuba, the Dominican Republic, Ecuador, Nicaragua and Mexico, 91 per cent of the overall budget of €760,264 has been implemented; (c) in the project entitled “Establishing a regional cooperation platform for sustainable industrial parks in eight LAC countries”, which covers Argentina, Bolivia (Plurinational State of), Chile, Costa Rica, El Salvador, Guatemala, Panama, and Paraguay, 76 per cent of the overall contribution of €700,600; and (d) in the “UNIDO Regional Industrial Knowledge Bank”, which covers seventeen LAC countries.

19. Besides the initial contributions from Member States of the region in 2012 and 2013, the trust fund was also supported with \$1 million by the Government of China in April 2014. At a meeting in March 2017, the Group of Latin American and Caribbean Countries and UNIDO agreed to intensify efforts to leverage the trust fund resources to ensure the continuation of ongoing regional projects and to develop new ones in agro-industry, biopharmaceuticals, mechatronics and automation, and the application of renewable energy sources. Since then a first additional contribution of €13,186.25 was provided by Mexico to support these efforts.

VII. Partnership Trust Fund

20. The Partnership Trust Fund (PTF) was established in 2015, the terms of reference of which are annexed to document GC.16/CRP.5. The PTF supports the development, coordination, and launching of the Programmes for Country Partnership (PCPs), the expansion of strategic partnerships, as well as the organization of global forum activities dedicated to the promotion of multi-stakeholder partnerships for ISID.

21. Contributions to the PTF have supported initial enabling activities for the development and roll-out of the five PCP pilots in Ethiopia, Senegal, Peru, Cambodia and Kyrgyzstan. In addition to UNIDO's overall coordination support within the framework of the PCP, this has included technical assistance and advisory services to facilitate the leveraging of funding and investment, including from the host government and financial institutions, for the realization of large-scale industrial projects such as industrial parks.

22. The PTF also contributes to strengthening strategic partnerships, in particular with financial institutions and the business sector, as well as to facilitating partnerships with environmental financing mechanisms (such as the Global Environment Facility and the Green Climate Fund), through the PCP but also other types of partnership modalities. With regard to financial institutions, PTF resources have directly supported the setting-up of institutional- and project-level partnerships with entities such as the World Bank, the African Development Bank, the European Investment Bank, the Asian Development Bank, and the Inter-American Development Bank, among others. This includes the development of and agreement on standard contractual templates which, in turn, serve as tools for successful engagement, formalization, implementation and risk management of project-specific partnerships with financial institutions. The PTF also supported the development of a new UNIDO Policy on Business Sector Partnerships as well as the regular application of UNIDO's due diligence screening and active risk management approach whenever the Organization engages with business sector entities.

23. The PTF has also been essential to the standardization of the PCP approach. Based on lessons learned from the piloting phase and the independent midterm evaluation, UNIDO developed a Policy on the Programme for Country Partnership as well as associated Guidelines which define in-house roles and responsibilities along the PCP cycle. Both the UNIDO Policy and Guidelines were promulgated in the first quarter of 2018, and will guide PCP development going forward, including the newest PCPs in 2018 and onwards.

24. Among other convening events, the PTF has supported the organization of regular ISID Forums, notably the fifth and sixth ISID Forums held in 2016 and 2017, respectively. These high-level events have been crucial to presenting the PCP model, offering a platform for dialogue and the sharing of PCP pilot experiences, ultimately helping to mobilize partners and support for the PCP approach.

25. As UNIDO moves forward with the expansion of the PCP to additional countries, the PTF will remain of critical importance to allow the Organization to respond promptly and flexibly to Member States' needs and requests for new PCPs. Contributions to the PTF will continue to serve as core seed funding to help UNIDO leverage partners, expertise and resources to support Member States in advancing ISID.

26. Since the creation of the fund, the following Member States have contributed to the fund: China, \$10,313,380 including support costs; Italy, with €151,994; Malta, with €3,906 in early 2018; Peru, with €633,131 including a contribution of €23,762 in early 2018, Russian Federation, with €246,709 in 2016 and \$250,000 in 2017, respectively; and Spain, with €113,000.

VIII. Special Account of Voluntary Contributions for Core Activities (SAVCCA) and Major Capital Investment Fund (MCIF)

27. At its forty-third session the Board took note of the establishment of two new special accounts: (a) the Special Account of Voluntary Contributions for Core Activities (SAVCCA), to facilitate the receipt, management and usage of voluntary contributions for core activities, and (b) the Major Capital Investment Fund (MCIF), as a funding mechanism to secure funding for major capital investments or replacements (decision IDB.43/Dec.6 (i)). The purposes and limits, as well as the special financial rules governing the operations of these accounts are contained in document IDB.43/5.

28. At the time of reporting, a total of €149,454 was renounced by various Member States with designated allocation towards the Special Account of Voluntary Contributions for Core Activities and €1,996,767 towards the Major Capital Investment Fund.

IX. Action required of the Committee

29. 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.46/6-PBC.34/6;

(b) Decides to delegate to the Director General the authority to approve projects for financing under the Industrial Development Fund in 2018 and 2019 in accordance with the priorities defined in the medium-term programme framework 2018–2021 (IDB.45/8 and GC.17/6);

(c) Encourages Member States and other donors to increase their voluntary contributions to UNIDO including for the recently created Partnership Trust Fund as well as the Special Account of Voluntary Contributions for Core Activities (SAVCCA) and the Major Capital Investment Fund (MCIF);

(d) Also encourages all donors to consider contributing programmable funds, specifically to enable UNIDO to respond rapidly to requests for assistance and develop and implement its programmatic activities in a prompt and coordinated manner;

(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) Encourages Governments of recipient countries to play an active role in sharing with UNIDO the responsibility for mobilizing funds for jointly agreed priority activities, and specifically to take the lead in identifying and accessing funds available at the country level, including local cost sharing opportunities, and funds from bilateral donors, multi-donor trust funds, United Nations Development Programme, World Bank as well as other development finance institutions;

(g) Strongly recommends that Member States 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 are recognized, and resources are made available.”