

Funds Mobilization Guide/Introduction

Introduction

As mandated in Part B of Annex II of the UNIDO [Constitution](#), only 6 per cent of the regular budget may be used for funding technical cooperation activities. Virtually all funding for UNIDO technical cooperation activities have therefore to be mobilized from other, external sources. Almost all these external sources are **special-purpose** in nature, which require the development and approval of a **project proposal** describing the project activities, before a final funding decision is made. Moreover, a separate agreement is often needed covering the provision of the funds for the project budget. It is expected though, that increasingly more funds will become available that are programmable by UNIDO, mostly under Trust Funds especially set up for well-defined programme activities and/or priority areas, e.g. market access/trade facilitation and rural energy for productive use.

The identification and mobilization of funds for a project or programme are the joint responsibility of the client (national owner) and UNIDO. Although responsibilities and action required vary, most projects require active funds mobilization by both the recipient country and UNIDO. The identification of potential donors is an integral part of project and programme development, starting at the project identification stage. Where a potential donor agrees, cooperation in the development phase is preferred.

As increasingly the authority for programming and approving funds is delegated to the field level, UNIDO field offices have an important role to play in the mobilization of funds. Field offices should build up and maintain close contacts with local donors so as to ensure that they are fully aware of donor priorities and activities in the country. They should take the initiative in respect of local mobilization of funds in close cooperation with headquarters. As the role of the field office varies with the source of funds in view of different decision-making procedures of each potential contributor, a separate note has been prepared and elaborates in more detail the [responsibilities for funds mobilization](#).

Funding Options

At the development stage, consideration should be given to the potential **source of funding** of the proposal. The funds commonly used by UNIDO for its projects can be divided into four categories:

- Funds programmable by the Secretariat (including the Regular Programme of Technical Cooperation, general-purpose contributions to the [Industrial Development Fund](#) as well as programmable contributions from donors)
- The Industrial Development Fund and similar voluntary contributions ([third party or self-financed trust funds](#)) made available to support identified projects, but programmed in close consultation with the donor
- [Global funds](#) related to specific purposes, such as the Multilateral Fund (for the Montreal Protocol), the Global Environment Facility, the United Nations Fund for International Partnerships, the Common Fund for Commodities, the Trust Fund for Human Security
- [Funds from UNDP or other UN agencies](#), programmed mainly at the country level.

IMPORTANT: Programme Support Costs

In principle, UNIDO is to be paid programme support costs (psc), normally calculated as a percentage of the project volume. While, in general, for IDF and trust fund contributions, the psc is 13%, different levels could be applied for different sources of funding (e.g. GEF, UNFIP). However, **any deviation from the standard**

level of reimbursement has to be approved by the Director-General, upon written advice from the Director of Finance.

Please consult Funds Mobilization staff for further clarification and/or the applicable modalities. A note on UNIDO's policy with respect to support costs is available under [Programme Support Costs](#).

Funds Mobilization Guide/Other UN funds

United Nations Development Programme (UNDP)

The United Nations Development Programme introduced in 1997 a new system for allocating their core resources to recipient countries. Under this system, UNDP's central technical cooperation resources are distributed basically under the TRAC system (Target for Resource Assignment from the Core). This system includes separate allocations for SPPD (Support for Policy and Programme Development) and STS (Support for Technical Services at the project level) that were only accessible for the agencies. However, as decided in September 2002 (decision 2002-18) these separate facilities are abolished with effect from 2004.

In recent years, UNDP has increasingly focused the core funds on the priorities set by their Board. Within these priorities, and after consultation with the government, country-specific areas are further targeted. Virtually the only chance to obtain UNDP funding for UNIDO priority activities is to concentrate at the country level on those areas where the priorities identified for UNDP coincide with the [thematic priorities of UNIDO](#).

Both in order to eventually access UNDP resources, but also to ensure a balanced coverage of the industry sector, UNIDO should, through its field staff, be fully involved in the UN country team and the related activities in preparing the programming tools: the **Common Country Assessment (CCA)** and the **UN Development Assistance Framework (UNDAF)**. The most likely areas for cooperation with UNDP are SME development and agro-based development, as these both relate directly to poverty alleviation and rural development, as well as environment-related activities, although in the context of larger UNDP programmes, other UNIDO priorities may also fit.

UN Fund for International Partnerships (UNFIP)

The United Nations Fund for International Partnerships (UNFIP) serves as the link between the UN and the United Nations Foundation (UNF), a public charity responsible for administering Ted Turner's \$1 billion contribution in support of UN causes. UNF/UNFIP support projects to better achieve the Millennium Development Goals in four priority areas: children's health, population and women, environment, and peace, security and human rights. UN organizations can submit project proposals in line with UNFIP's Programme Frameworks, developed for each of these areas, for review by the UNF/UNFIP Boards, prior to the formulation of detailed project documents.

Under the Environment Programme, the programme framework for Sustainable Energy and Climate Change is of particular interest for UNIDO's activities. This framework identifies three priority niche areas for UNF/UNFIP investment. One area of focus is the promotion of efforts to develop and demonstrate sustainable and commercial approaches to deliver clean and affordable renewable energy services to rural communities. The emphasis is on community-based renewable energy systems linked to productive use and income generating activities to address the energy needs of the rural poor in developing countries who lack access to basic energy and electricity services. The second area aims to promote greater energy efficiency in the industrial, residential, and commercial sectors through market-oriented policies and programmes. The third strategic area of focus promotes the clean development mechanism (CDM) of the Kyoto Protocol to the United Nations Framework Convention on Climate Change as a means to assist developing countries in

meeting the challenge of climate change by engaging the private sector in promoting investment in renewable energy and energy efficiency, with agreement and approval of host governments.

The project approval process is based upon a review by the UNF/UNFIP Board of project proposals submitted by the members of the respective Programme Framework Group - UNIDO is a member of the group on Sustainable Energy and Climate Change - and by those UN system organizations whose mandates have a bearing on the thematic area. Also, proposals can be submitted by UN Country Teams in the field for this review.

At present, the UNFIP is considering a move away from funding individual projects towards developing strategic, multi-year programmes based on innovative public-private partnership arrangements and leveraging co-financing for key programme priorities.

The official focal point for UNFIP matters is the UNIDO office at New York. *Detailed information on UNFIP and its Programme Frameworks and procedures as well as guidelines for preparation of project proposals can be found at its web site, <http://www.unfip.org>.*

The UN Trust Fund for Human Security (UNTFHS)

Since 1999, a Trust Fund for Human Security is established in the United Nations Secretariat, funded (until now) solely by Japan. Organizations in the UN system can submit project proposals that address "human security" issues, such as poverty, environmental degradation, refugee problems, illicit drugs and infectious diseases such as HIV/AIDS. An important criterion for reviewing proposals is to what extent and how each project will have concrete and sustainable benefits for the targeted individuals; in other words, the proposals need to have a "people" rather than a "technology" oriented approach. It is also to be noted that the trust fund does not finance the identification and formulation of project proposals.

Applications to the Fund normally commence with the submission of Project Summaries to the Permanent Mission of Japan for consideration by the Japanese Government (Ministry of Foreign Affairs). Submissions may be made as well through the Japanese embassy in the country concerned, after in-house endorsement of the proposal has been obtained. For more details on the procedures to be followed, please refer to the separate section on [Trust Fund for Human Security](#).

More detailed information on this source of fund and guidelines for the preparation of proposals can be obtained from the funds mobilization staff.

Other United Nations Funds and Agencies

For specific UNIDO activities, funding organizations such as IFAD, UNODC (former UNDCP), etc., may be able to finance projects. This can be done through the [trust fund mechanism](#). Contacts should be made through the representatives of these organizations in the field.

UNIDO is cooperating with other United Nations agencies such as FAO, ILO, WHO, UNESCO, UNHCR, UNICEF, on industry-related programmes. This cooperation is to prevent overlaps and to maximize effectiveness. Whilst most agencies are in principle not funding each other's activities, such cooperation can still be important for jointly raising funds as [donor governments](#) like to support programmes where several UN agencies cooperate.

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Introduction

Member States require UNIDO to obtain reimbursement of the cost of the work involved in carrying out activities funded from extra-budgetary sources (all our projects except those funded by XP and YA). The income is used, through the operational budget, as integral part of the overall budget of the organisation and it funds a considerable number of regular posts. Although member states accept, and as provided for in the Constitution, not all costs related to the management of the extra-budgetary activities are fully reimbursed, the reimbursement to total costs ratio is being reviewed by member states from time to time. It is therefore evident that the support costs income is very important to the organisation. This note sets out the activities and services to be reimbursed as well as the various options available for the budgeting and reimbursement of the cost.

The existing systems

The level of reimbursement is set in [Financial Rule 106.4.2](#): *"The Director-General shall set UNIDO's policy on the rate of reimbursement for such services from the resources of the IDF, trust fund, reserve or special account. In exceptional situations, where an individual project or activity justifies a different rate, it shall be approved by the Director-General upon the advice of the Director, Financial Services"*.

The support cost reimbursement system applied by UNIDO was up to 1992 the same as those approved by member states for UNDP financed activities. i.e. a flat 13 % of project cost. Following the 1992 change in support cost arrangements for UNDP which introduced a different system that could not in its entirety be used for other donors, UNIDO (and other specialized agencies) continued to apply this simple system for most projects funded by donors. For UNDP financed projects the system applied a reimbursement of a flat 10 percent for "Administrative and Operational Services" (AOS), plus technical support services "as required" at a monthly rate. This system is also used by some other funding organizations such as the Common Fund for Commodities, and with some additional flexibility for GEF projects. UNIDO has, with the explicit approval by its member states maintained the 13 % as the norm for other projects (Document IDB 10/8, PBC 8/8, PBC conclusion 92/8).

Recently an additional system for reimbursing these costs has been introduced by several funding organizations. This system provides for a 7% flat reimbursement for indirect support costs, with all direct costs to an agency of technically and administratively managing the implementation chargeable to the project budget itself. This system is applied by both the European Commission (under the [FAFA](#)) and by the GEF (with some minor variations). This new system has also, following extensive inter-agency consultations, been introduced for the increasing number of multi-donor trust funds (mainly in post crisis situations as well as for the "One UN" funds) and applies also to the MDG-F fund (the "Spanish Fund"). Multi-donor trust funds additionally include a 1% cost reimbursement for the Administrative Agent that manages the fund. Due to this proliferation of different systems the issue of support costs has become rather complicated.

What needs to be reimbursed

In principle all services provided by the organisation for the development, formulation, implementation, management and evaluation of programmes and projects financed by sources other than the regular budget of UNIDO are subject to reimbursement. This includes:

- A. **Administrative, financial and procurement services** provided by UNIDO, including those related to project personnel, procurement and subcontracting, organization of fellowship/ training, as well as financial management and financial reporting of UNIDO projects.
- B. **“Routine” technical management and support services** to project operations including those related to the specification and selection of inputs and “routine” progress reporting.
- C. **Specific technical services** required to responsibly manage the implementation of a project and support its technical performance. This includes all required missions to the field, as well as all “non-routine” HQ based technical services required by a project such as extensive work by allotment holders on the specification of complex purchases or contracts and special technical reporting. It is important to understand and present these work months in the project document as technical expertise required by the project, and not as a UNIDO “overhead charge” to the project. While most of these services will relate to ongoing UNIDO projects, technical support services should also be charged if they are performed at donor request, either in preparation of a project or as “stand-alone” service. (**NOTE:** These services are in support of projects and are different from the possible serving of UNIDO staff “on loan”, working on a temporary basis as an expert within the project.)
- D. **Acting as “Administrative Agent”** in cases where contributions from one or more donors are received for delivery by two or more UN agencies. In practice UNIDO will do this only in cases where an important part of the project or programme is to be delivered by UNIDO itself. As agreed UN wide for such activities (that are usually carried out by the UNDP Multi-donor trust fund office (see: <http://www.undp.org/mdtf/overview.shtml> for standard documents etc.) the standard cost reimbursement for this service is 1% of funds received and managed.

Agreement should be reached with the donor on the nature and cost of the services required by a project or programme before a project document is finalized. The costs, including any flat rate support costs should be incorporated in the project document and budget before the project and funding agreement is signed.

Options for reimbursement

All project budgets, regardless of the source of funding (excl. XP, YA) should include a support cost reimbursement. There are now basically three options for reimbursement for the categories A - C above (a separate composite system applies only to projects funded directly by the Multi-lateral fund for the implementation of the Montreal Protocol):

1. A flat rate of 13% of the project volume for a mix of the above mentioned services, regardless of actual requirements of the project. In view of the widespread acceptance and use of this system as well as its simplicity this is the preferred option, certainly for (governmental) donors that regularly fund UNIDO projects.
2. A flat 10% of the project budget covering the services A and B above, plus a work month-based charge for technical support services (C above). This option is preferable where a high level of technical professional services is expected to be needed, or at the request of a donor where the project has an unusual input structure (e.g. a very high contracts or equipment component), or a very large project. This option also applies to projects funded by UNDP core funds, as well as by the Common Fund for Commodities etc.
3. A flat 7 % of the project budget for indirect cost only, plus all direct costs charged to the project budget. This applies to Multi-donor trust funds, the MDG-F (“Spanish fund”) and the European Union funds (under the [FAFA](#)” but also for other EU funds).

The above options have been agreed and approved for the specific donors concerned, and these support cost rates do not require separate approval.

All other rates or combinations require separate approval by the Director-General based on advice from the Director of Finance. Such different (lower) rates may be justified if the project is very large, has large single contracts or purchases, or includes a management and administrative structure that will perform (some) administrative activities normally performed by UNIDO. For each individual case a proposal with detailed justification has to be submitted by interoffice memorandum to the Director-General through the Director Financial Services.

How to include the reimbursement in the budgets

1. Projects carrying 13 %

The 13 percent should be included normally as a separate addition to the budget after budget line 99 "Grand Total". However if for specific donors it is preferable not to have the bottom line addition, the budget could be presented on a "gross" basis, with the 13 percent added to each budget line.

2. Projects with separate flat rate charge and technical support reimbursements:

- i) The flat rate costs (normally 7% or 10%) should, as already now, be added to the overall budget, normally as a "bottom line addition", or if preferred by a donor, incorporated in each budget line.
- ii) The technical support services should be included as work months and costs, normally in budget line 11-50.

For technical support services the reimbursement to be included in the project depends on the number of work months that are expected to be required. For projects including a 10% flat rate reimbursement It is important to understand the difference between the categories B and C above.

For projects with a 7% flat rate all technical services are to be calculated and included. A reasonable estimate of time required for a project on a yearly basis should be made taking into account the overall yearly workload and project portfolio. **Please contact Financial Services for the applicable rate to be budgeted and charged per work month. Please also note that the actual time spent on the project needs to be recorded and reported to Financial Services regularly so that actual cost can be charged in a timely manner.**