

Integrated Framework Steering Committee

**FINANCIAL REPORT ON THE INTEGRATED FRAMEWORK
TRUST FUND (IFTF)**

Report by the United Nations Development Programme (UNDP):
March 2001-February 2002

Addendum

A OVERVIEW

1. The Integrated Framework Trust Fund (IFTF), hereafter also referred to as “the Trust Fund (TF)” or “the Fund”, was established under the financial regulations and rules of the UNDP for the receipt and administration of funds and for mobilizing additional resources needed to enhance the programme activities of the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). The IF aims at mainstreaming trade within national development strategies by promoting trade policies supportive of the poverty reduction objectives of these countries, accelerating the integration of LDCs into the multilateral trading system and the global economy and at developing national capacities.

2. Since its creation in February 2001, the IFTF has served as a central point for the deposit of contributions to the IF. Contributions have been pledged by both bilateral and multilateral donors towards two finance windows operating simultaneously: Window I, a general fund, for un-earmarked contributions for diagnostic studies and mainstreaming, or Window II for contributions allocated to specific and clearly identifiable programmes for capacity building.

(a) Utilization of the Trust Fund (TF)

3. In implementing pilot scheme, the Steering Committee (SC) has endorsed the recommendation made by the Inter-Agency Working Group (IAWG) concerning the designation of one or several Executing Agencies for the implementation of each activity financed under the TF. During the review period, the SC made decisions on funding projects that meet the objectives of the IF. Details of such projects, including the respective project budgets, were set out in the relevant project documents.

4. In accordance with decisions and directives of the UNDP Executive Board, the TF charges for support services provided by the Executing Agency, plus any costs incurred for administering the fund. As agreed, the aforementioned costs have not exceeded thirteen percent (13 per cent) limit. On average, the total administration services fees for the IF pilot scheme was about 9-10 per cent of total project expenditures.

(b) Administration of the IFTF

5. The IFTF has been administered by the UNDP in accordance with the applicable UNDP regulations. Project management and expenditures are all governed by the regulations, rules and directives of the UNDP and, where applicable, the regulations, rules and directives of a designated executing agency.

6. In managing the fund, UNDP has observed the rule that the aggregate of the amounts budgeted for the projects together with any estimated payments in respect of support services shall not exceed the total resources available to the Fund.

7. Audited financial report for expenditures incurred in 2001 will be presented to donors during the course of this year. UNDP is working with all the tasked Executing Agencies on this matter.

8. The administration of the TF has proceeded according to plan. Considerable delays have been encountered in the remittance of pledges, for various reasons. Delay in remittance of pledges has potential to harm the smooth implementation of IF project activities. The cooperating agencies that are executing IF projects have established flexible and accommodative arrangements with the Fund Manager to facilitate quick implementation of project activities once project documents have been signed.

B REVIEW PERIOD FINANCIAL STATUS

9. This Financial Report covers the period March 2001 to February 2002, and captures financial information on contributions to Window I (mainstreaming) and Window II (capacity building), and project approvals done by the SC during the same period. In addition, the Financial Report reports on progress by donors in remitting pledges to the IF, as well as the major problems encountered.

10. The definition of resource transfer or remittance referred in this Financial Report is the confirmation of the deposit of resources into the TF Bank Account. The Report also makes note of time gap between the SC approval of project idea and signature of the resultant project document by Fund Manager. For purposes of disbursing project funds, the signature of the project document serves as the official expenditure authorization to executing agencies.

11. For purposes of transferring pledged funds, different donors have applied different mechanisms for the transfer of resources to the TF. Some donors have opted to employ the Memorandums of Agreement (MoUs) with UNDP, while others use a simple letter of transfer. There are also other donors who continue to apply their own respective disbursement procedures, with conditionalities, the most common being the termination date, which imply for the TF Manager the establishment of a sub-Trust Fund. The addition of conditionalities has tended to complicate the administration of the Fund, e.g. the need for separate reporting requirements for established sub-Trust Funds.

12. The IFTF had received total pledges amounting to US\$9.2 million, almost a 50 per cent increase from the level in October 2001. This amount has been pledged by total of 16 bilateral and multilateral donors, as indicated in Table 1 (Pledges to IF). Since establishment last year, 11 of the 16 participating donors had transferred all or part of the resource pledged to the TF. IF donors are honoring pledges made to the IFTF by transferring or remitting resources to the TF Bank Account.

13. Of the \$4.0 million¹ remitted to date, a total of \$3.2 million (or 80 per cent of total remittances) came in 2001. A total of 9 donors (Canada, Denmark, Finland, Ireland, Netherlands, Norway, Sweden, Switzerland and UK) contributed to the 2001 remittances, as indicated in Table 2. Donors have already made commitments to remit an additional \$5.0 million and \$987,680 during 2002 and 2003 respectively (see Table 2 – Schedule of remittances).

14. As of 28 February 2002, Belgium and the World Bank had transferred their first tranche of contributions to the TF. For the World Bank, the second similar tranche is expected in during the course of this year, while the Belgium contribution will come in 2003. Two donors (UNDP and

¹ Year 2001 - \$3,236,382.58, and 2002 - \$827,320 (from Belgium & World Bank).

World Bank) have already committed themselves to make further contributions amounting to US\$600,000 in year 2003.

15. Indicative transfers for year 2002 comprise of contributions for window I of \$3.3 million (Switzerland, UK, USA, EU, UNDP and World Bank), and window II of \$2.1 million (from Belgium, Italy & Japan). Belgium and Italy contributions had been earmarked with no specific country focus.

16. Fund Manager is finalizing paper work that will see the transfer of pledges from the USA, EU and UK (second contribution to IF). These remittances are not captured in the cash-flow schedule for the reporting period.

C ANALYSIS OF RESOURCE UTILIZATION

17. Resources allocated for the period under review have enabled work to start on the three (3) pilot studies in Cambodia (August 2001), Mauritania and Madagascar (approved July 2001), at a cost of US\$300,000 each.

18. The SC approved five projects from the old IF programme for funding under the IFTF. The projects, with a total budget of \$1.5 million (or \$300,000 each), are for Bangladesh, The Gambia, Haiti, Uganda, and Tanzania. Projects documents for these countries have now been signed for implementation, and ITC, the Executing Agency, has commenced work in these countries.

19. Drawing on the lessons from the first group of pilot countries, a decision has been made to extend the IF to a second group of recommended LDCs² on the basis of the agreed criteria.³ UNDP and World Bank have prepared a regional project document to extend the IF to four LDCs (Lesotho, Malawi, Senegal and Yemen) at a budget of \$1.2 million. The fifth country, Mali is still being reviewed in collaboration with USAID that has shown interest to support the country. The total approved regional project budget for the five will be \$1.5 million.

20. The IAWG will soon review the capacity building project for Cambodia to be funded from Japan's contribution to the Window II at a cost of \$500,000. Approval is likely to be in March 2002.

21. As of end of February 2002, the cumulative approvals (for windows I & II) amount to \$3.9 million⁴, while the actual cumulative remittances were \$4.0 million, leaving a small surplus balance of \$0.1 million in the IFTF Bank Account (see Table 3 – Cash Flow Schedule balance without Cambodia project).

22. The cash flow analysis indicates that the IFTF balance available is not adequate to meet the requirements of achieving target of eleven LDCs by year-end. UNDP is following up with donors who have made pledges in order to expedite the transfer of resources to the TF.

23. The pilot scheme reveals that about 85 per cent of diagnostic study costs are made up of expenditures in respect of international experts' fees and mission costs. The costs of national activities, including the use of national experts is relatively small (see Table below).

² Burundi, Djibouti, Eritrea, Ethiopia, Guinea, Lesotho, Malawi, Mali, Nepal, Senegal and Yemen.

³ The agreed criteria are contained in WTO document WT/IFSC/W/9.

⁴ Pilot (3 countries), Old IF (5 countries) and Next Round (5 countries)

IF Pilot Scheme Distribution of Costs		
Item	Expenditure (\$)	% of Total
International Experts fees	480,001	65%
Mission Costs	146,300	20%
National Experts fees	21,400	3%
Workshop & Printing	21,600	3%
Admin. Fees	66,930	9%
Total	736,231	100%
<u>Source:</u> World Bank, Interim project delivery reports for year 2001, IF Pilot Scheme (Cambodia, Madagascar & Mauritania), January 2002.		

D MATTERS ARISING

(a) Donor Conditionality

24. Despite the spirit of the IF compelling donors to avoid imposition of conditionalities and the earmarking of resources made available to the IFTF, a number of donors have continued to apply this approach, creating considerable difficulties for overall TF administration. In the cases of introduction of donor conditionalities in a MoU, UNDP is compelled to establish and manage a separate sub-Trust Fund for such contribution, with separate reporting requirements. This situation creates problems for matching and pooling donor contributions, outside the common fund, to mobilize resources for approved project budgets.

25. The inclusion of termination or expiry dates for IF contributions constitute a major problem for TF administration. The conditionality creates a problem for fund management when project activities are delayed or rescheduled to due to political or social instability in a beneficiary country. In such situation, the IFTF needs flexibility to rollover-unspent balances with minimum restrictions from contributing donors.

(b) Earmarking of contributions to Window II

26. Contributions to Window II are becoming increasing essential especially as countries complete their diagnostic studies and have developed priority matrixes for TA. Urgent and rapid action is required to build on the momentum generated by diagnostic studies. However, earmarking towards specific countries is discouraged as it increases complexity and disrupts the sound allocation process of Fund resources between countries and projects.

27. Because of the importance of the follow-up capacity building activities to the beneficiary countries, monitoring of these activities through the TF becomes an important and useful activity. In this regard, the IAWG encourages donor contributions for Window II through the TF. The IAWG has been flexible on earmarking for window II contribution.

(c) Treatment of Unspent IF Country Allocations

28. Experience from the pilot countries indicates that some countries are unlikely to fully utilize the amount (\$300,000) allocated for diagnostic studies. Guidance of the SC on this matter is required.

TABLE 1 - PLEDGES TO IF TRUST FUND
(As of 28 February 2002)

Donor	Amount Pledged
Belgium*	30,000,000 BF (approx. \$715,000)
Canada	Canadian \$1,000,000 (approx. US\$ 650,000)
Denmark	US\$ 300,000
Finland	1 million Finnish Markka (approx. US\$ 150,000)
France	Amount to be announced
Ireland	US\$ 300,000
Italy*	Euros 900,000 (approx. \$850,000)
Japan*	US\$ 500,000
Netherlands	US\$ 300,000
Norway	US\$ 500,000
Sweden	3 million Swedish Kronor (approx. US\$ 300,000)
Switzerland	US\$ 500,000
United Kingdom**	US\$ 500,000 GBP 1,000,000 (approx. \$1,439,000)
United States	US\$ 200,000
European Commission	Euro 200,000 (approx. US\$ 180,000)
UNDP	US\$ 300,000 (US\$ 100,000 per year)
World Bank	US\$ 1,500,000 (US\$ 500,000 per year)
TOTAL	US\$ 9,184,000

* = Earmarked for Window II for capacity building

** = Amount pledges in 2001

*** = Pledge made at Doha

TABLE 2 - SCHEDULE OF REMITTANCES

Donors	Actual Remittances			Expected remittances		
	2001	2002	2003	2002	2003	2003
Belgium				\$327,320.00		\$387,680.00
Canada	\$660,264.17					
Denmark	\$286,168.00					
Finland	\$154,497.41					
France						
Ireland	\$299,950.00					
Italy				\$850,000.00*		
Japan				\$500,000.00*		
Netherlands	\$300,000.00					
Norway	\$511,945.00					
Sweden	\$323,558.00					
Switzerland	\$200,000.00			\$300,000.00*		
United Kingdom	\$500,000.00			\$1,439,000.00*		
United States				\$200,000.00*		
European Commission				\$180,000.00*		
UNDP				\$200,000.00*		\$100,000.00
World Bank				500,000.00		
				\$5000,000.00		\$500,000.00
TOTAL	\$3,236,382.58			\$4,996,320.00		\$987,680.00

* Announced but not yet remitted to the IFTF Account

TABLE 3 – SCHEDULED OF EXPECTED CASH FLOW

	2001	2002
Beginning Balance	0	2,336,382.58
Remittances		
Actual Remittances	\$3,236,382.58	\$827,320***
Pilot Countries		
Cambodia	\$300,000.00	
Madagascar	\$300,000.00	
Mauritania	\$300,000.00	
Sub-total		
Old IF Countries*	(\$900,000.00)	
Bangladesh		\$300,000.00
Gambia		\$300,000.00
Haiti		\$300,000.00
Tanzania		\$300,000.00
Uganda		\$300,000.00
Sub-total		(\$1,500,000.00)
Window II Approval		
Cambodia (under review)		(\$500,000.00)#
The Next Round **		
(Initial Group)		
Malawi		\$300,000.00
Lesotho		\$300,000.00
Senegal		\$300,000.00
Mali****		\$300,000.00
Sub-Total		(\$1,500,000.00)
Total Expenditures	(\$900,000.00)	(\$3,500,000.00)
End Balance (with Window II approval)		-\$336,297.42
End Balance (less Window II approval)	\$2,336,382.58	\$163,702.58

- * Project documents for the five old IF countries have been signed first week of January 2002. Total amounts to \$1.5 million.
- ** Project document sent to the WB for signature amounts to \$1,500,000, which correspond to six countries. As additional remittance will be made, revisions will be prepared. Target for 2002 is to cover eleven countries (remainder not included in cash flow).
- *** Remittances from World Bank (\$500,000) and Belgium (\$327,320)
- **** Project still under SC & IAWG consideration
- # Project to be considered for approval early March 2002.